

CORPORATE GOVERNANCE REPORT

C.P. Pokphand Co. Ltd. (the “Company”) is committed to achieving high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability. The Company has applied the principles and complied with most of the code provisions prescribed in Appendix 14 – Code on Corporate Governance Practices (the “CG Code”) as required under the Rules Governing the Listing of Securities (the “Listing Rules”) in The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), which became effective on 1st January, 2005.

To ensure compliance with the CG Code, the board of directors (the “Board”) has reviewed and proposed the necessary amendments to the Bye-Laws of the Company to bring the constitution of the Company in alignment with certain provisions of the CG Code. This report describes its corporate governance practices and explains the applications of the principles of the CG Code and deviations (if any).

A. DIRECTORS

The Board

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company’s affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and budget should be retained for the Board’s approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management has reported back to the Board and obtain prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established executive board committee, audit committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, as are the committees’ structure, duties and memberships.

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group’s compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.



CORPORATE GOVERNANCE REPORT

A. DIRECTORS (continued)

The Board (continued)

All directors are given the opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses should be given as promptly and fully as possible within a reasonable time.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. Notices of regular Board/committee meetings are given at least 14 days before the date of meeting. For all other Board/committee meetings, reasonable notices are given.

Minutes of the Board/committee meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive director ("INED") who, and whose associates, have no material interest in the transaction, should be present at such a board meeting.



CORPORATE GOVERNANCE REPORT

A. DIRECTORS (continued)

Board Composition

The Board currently consists of fifteen directors, namely one Chairman, one Executive Chairman, three Executive Vice Chairmen, one Chief Executive Officer (“CEO”), one Chief Financial Officer, one Chief Operating Officer, four Executive Directors and three INEDs.

| Position | Name |
|-------------------------------------|---|
| Chairman | Mr. Sumet Jiaravanon |
| Executive Chairman | Mr. Dhanin Chearavanont |
| Executive Vice Chairmen | Mr. Thanakorn Seriburi Mr. Meth Jiaravanont Mr. Anan Athigapanich |
| Chief Executive Officer | Mr. Damrongdej Chalongphuntarat |
| Chief Financial Officer | Mr. Robert Ping-Hsien Ho |
| Chief Operating Officer | Mr. Bai Shanlin |
| Executive Directors | Mr. Soopakij Chearavanont Mr. Nopadol Chiaravanont Mr. Benjamin Jiaravanon Mr. Narong Chearavanont |
| Independent Non-Executive Directors | Mr. Kowit Wattana Mr. Sombat Deo-isres Mr. Ma Chiu Cheung, Andrew |

The attributes, skills and expertise among the existing directors have a balance and mix of core competencies in areas such as accounting and finance, legal, business and management, agri-business operations and marketing strategies.

The INEDs meet the requirements of independence under the Listing Rules so that there is sufficient element of independence in the Board to exercise independent judgements. The Board considers that all of the INEDs are independent and has received from each of them the confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. They are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The functions of INEDs include, but not limited to :

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and active participating on committees, if invited;
- attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group’s performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (continued)

Board Composition (continued)

The Company deviated from compliance with rule 3.10(1) that every listed company must include at least three INEDs subsequent to the resignation of Mr. Chidchai Vanasatidya on 8th March, 2005. The Stock Exchange was duly informed and the Board endeavoured to select, assess the independence and recommend Mr. Kowit Wattana as an INED to fill the vacancy within three months to meet the requirement as set out in rule 3.11.

Chairman and Chief Executive Officer

Mr. Dhanin Chearavanont held both the positions as Chairman and CEO of the Company. To comply with the CG Code, the roles of Chairman and CEO have been separated since September 2005 and the positions are held by separate individuals with a view to maintain an effective segregation of duties between management of the Board and the day-to-day management of the Group's business. There is no financial, business, family or other material/relevant relationship between the Chairman and CEO.

The Board has re-designated Mr. Sumet Jiaravanon as Chairman and Mr. Dhanin Chearavanont as Executive Chairman, who are brothers, for providing leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

The Board has appointed Mr. Damrongdej Chalongphuntarat as CEO, who has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Appointment, Re-election and Removal

Appointment of new directors is a matter for consideration by the Board. It reviews the profiles of the candidates and makes recommendations on the appointment, re-election and retirement of directors. During the year, six directors and three INEDs resigned from their positions in March and September for personal reasons and/or to make room for younger blood in the Company's management. Three directors were re-designated, nine directors and three INEDs were appointed by the Board.

A special resolution was passed on 30th November, 2005 at a special general meeting to amend the Bye-Laws of the Company to provide that (1) any directors appointed by the Board to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after their appointment rather than at the next following annual general meeting ("AGM") after their appointment; and (2) one-third of the directors who have been longest in office since their last election or re-election are subject to retirement by rotation at least once every three years. The new directors shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting. All retiring directors are eligible for re-election.



CORPORATE GOVERNANCE REPORT

A. DIRECTORS (continued)

Appointment, Re-election and Removal (continued)

The Company was incorporated in Bermuda under the C.P. Pokphand Company Act, 1988 (“Private Act”). Pursuant to paragraph 3(e) of the Private Act, any executive chairman and any managing director shall not be subject to retirement by rotation at each AGM. In order to comply with the CG Code, Mr. Dhanin Chearavanont, the Executive Chairman, voluntarily retires by rotation in such manner and at such frequency as the Bye-Laws of the Company may provide.

Newly appointed director(s) of the Company will receive induction and reference materials to enable him/them to familiarise with the Group’s history, mission, business operations and the Company’s policies. Each director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company. Every new director received a “Memorandum on the Duties and Responsibilities of Directors of a Company Listed on the Main Board of The Stock Exchange of Hong Kong Limited” prepared by the Group’s external lawyers setting out guidelines on statutory and regulatory requirements.

The INEDs are appointed for a fixed term of one year and are subject to retirement by rotation and re-election by shareholders at general meeting in accordance with the Company’s Bye-Laws.

The names and biographical details of the directors who will offer themselves for election or re-election at the general meeting are set out in the relating circular accompanying the notice of meeting, to assist shareholders in making an informed decision on their elections.

Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

Committees

The Board has established an Executive Board Committee (“EBC”) and a Remuneration Committee (“RC”) in September 2005 with written terms of reference to enable such committees to discharge their functions properly.

Executive Board Committee

The EBC consists of Messrs. Dhanin Chearavanont (Chairman), Thanakorn Seriburi, Meth Jiaravanont, Anan Athigapanich, Damrongdej Chalongsuntarat, Robert Ping-Hsien Ho and Bai Shanlin.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restriction.



CORPORATE GOVERNANCE REPORT

A. DIRECTORS (continued)

Remuneration Committee

The RC consists of Messrs. Dhanin Chearavanont (Chairman), Meth Jiaravanont, Kowit Wattana (INED), Sombat Deo-isres (INED) and Ma Chiu Cheung, Andrew (INED).

The principal functions of the RC include:

- recommending the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- determining the remuneration packages of all executive directors and senior management;
- reviewing and approving compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring no director or any of his associates is involved in deciding his own remuneration.

The RC held a meeting in late December, 2005 to discuss and review the remuneration policy and package for directors. The emoluments of directors are determined by reference to the experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions. The Company has adopted a share option scheme as early as 10th April, 1992, which serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Members of the RC, however, do not participate in the determination of their own remuneration. Details of the directors' emoluments are set out in note 12 to the financial statements.

The RC consults the Chairman and CEO about its proposals relating to the remuneration of other executive directors and has access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

The terms of reference of the RC is available from the Company Secretary on request and is posted on the Company's website.

Audit Committee

The Audit Committee ("AC") was established on 28th January, 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). The AC consists of three INEDs, Messrs. Ma Chiu Cheung, Andrew (Chairman), Kowit Wattana and Sombat Deo-isres, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 30th March, 2005 in terms substantially the same as the provisions set out in the CG Code.



CORPORATE GOVERNANCE REPORT

A. DIRECTORS (continued)

Audit Committee (continued)

The Company provides sufficient resources to the AC for discharging the duties. The duties and responsibilities are set out clearly in the terms of reference which includes :

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors, any questions of resignation or dismissal of the auditors;
- reviewing and monitoring the external auditors' independency, discussing the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; and
- reviewing the external auditors' management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised.

The AC met three times during the year 2005 and performed the following work :

- Reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31st December, 2004 and management letter;
- Reviewed with management the unaudited interim financial statement for the six months ended 30th June, 2005;
- Reviewed the findings and recommendations of the internal audit department on the operations and performance of Group;
- Reviewed the effectiveness of internal control system;
- Reviewed the external auditors' statutory audit plan and engagement letter; and
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors.

Minutes of AC are kept by the Company Secretary. Draft and final versions of minutes have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the AC is available from the Company Secretary on request and is posted on the Company's website.

CORPORATE GOVERNANCE REPORT

A. DIRECTORS (continued)

BOARD AND COMMITTEE ATTENDANCE

The Board held four regular meetings in 2005. Details of the attendance of individual director at Board meetings and committee meetings during 2005 are set out below :

| Directors | No. of meetings attended/held | | |
|--|-------------------------------|---------------------------|--------------------|
| | Board | Remuneration Committee | Audit Committee |
| Executive Directors | | | |
| Mr. Sumet Jiaravanon | 2/4 | - | - |
| Mr. Dhanin Chearavanont | 4/4 | 1/1 | - |
| Mr. Thanakorn Seriburi | 2/4 | - | - |
| Mr. Meth Jiaravanont (appointed on 13th September, 2005) | 1/2 | 0/1 | - |
| Mr. Anan Athigapanich (appointed on 13th September, 2005) | 1/2 | - | - |
| Mr. Damrongdej Chalongphuntarat (appointed on 13th September, 2005) | 2/2 | - | - |
| Mr. Robert Ping-Hsien Ho (appointed on 13th September, 2005) | 2/2 | - | - |
| Mr. Bai Shanlin (appointed on 13th September, 2005) | 2/2 | - | - |
| Mr. Soopakij Chearavanont (appointed on 13th September, 2005) | 1/2 | - | - |
| Mr. Nopadol Chiaravanont (appointed on 13th September, 2005) | 1/2 | - | - |
| Mr. Benjamin Jiaravanon (appointed on 13th September, 2005) | 0/2 | - | - |
| Mr. Narong Chearavanont (appointed on 13th September, 2005) | 0/2 | - | - |
| Mr. Jaran Chiaravanont (resigned on 13th September, 2005) | 0/3 | - | - |
| Mr. Montri Jiaravanont (resigned on 13th September, 2005) | 1/3 | - | - |
| Mr. Prasert Poongkumarn (resigned on 13th September, 2005) | 2/3 | - | - |
| Mr. Min Tieworn (resigned on 13th September, 2005) | 1/3 | - | - |
| Mr. Thirayut Phitya-Isarakul (resigned on 13th September, 2005) | 3/3 | - | - |
| Mr. Veeravat Kanchanadul (resigned on 13th September, 2005) | 2/3 | - | - |
| Independent Non-Executive Directors | | | |
| Mr. Kowit Wattana (appointed on 7th June, 2005) | 1/2 | 1/1 | 1/2 |
| Mr. Sombat Deo-isres (appointed on 30th September, 2005) | 1/1 | 1/1 | 1/1 |
| Mr. Ma Chiu Cheung, Andrew (appointed on 30th September, 2005) | 1/1 | 1/1 | 1/1 |
| Mr. Chidchai Vanasatidya (resigned on 8th March, 2005) | 1/1 | - | - |
| Mr. Budiman Elkana (resigned on 30th September, 2005) | 1/3 | - | 2/2 |
| Mr. Cheung Koon Yuet, Peter (resigned on 30th September, 2005) | 3/3 | - | 2/2 |
| No. of meetings | 4 | 1 | 3 |



CORPORATE GOVERNANCE REPORT

A. DIRECTORS (continued)

BOARD AND COMMITTEE ATTENDANCE (continued)

Messrs. Jaran Chiaravanont, Montri Jiaravanont, Sumet Jiaravanon and Dhanin Chearavanont are brothers. Mr. Sumet Jiaravanon is the father of Mr. Benjamin Jiaravanon and an uncle of Messrs. Meth Jiaravanont, Soopakij Chearavanont, Nopadol Chiaravanont and Narong Chearavanont. Mr. Dhanin Chearavanont is the father of Messrs. Soopakij Chearavanont and Narong Chearavanont and an uncle of Messrs. Meth Jiaravanont, Nopadol Chiaravanont and Benjamin Jiaravanon. Mr. Montri Jiaravanont is the father of Mr. Meth Jiaravanont. Mr. Jaran Chiaravanont is the father of Mr. Nopadol Chiaravanont. Messrs. Soopakij Chearavanont and Narong Chearavanont are brothers. Messrs. Meth Jiaravanont, Soopakij Chearavanont, Nopadol Chiaravanont, Benjamin Jiaravanon and Narong Chearavanont are cousins. Messrs. Thirayut Phitya-Isarakul and Thanakorn Seriburi are also brothers. Save as disclosed above, there are no family relationships among members of the Board.

SECURITIES TRANSACTIONS BY DIRECTORS AND EMPLOYEES

The Company has adopted the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Model Code"). Having made specific enquiry of all directors, they confirmed that they have fully complied with the required standards set out in the Model Code throughout the year ended 31st December, 2005.

The Company has also adopted a code of conduct regarding securities transactions for all employees (the "Code") on terms no less exacting than the Model Code. Officers/employees as defined in the Code who is deemed to be in possession of unpublished price-sensitive or confidential information in relation to the Company or its shares are required to prohibit from dealing in the shares of the Company.

B. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The directors have also ensure the timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.



CORPORATE GOVERNANCE REPORT

B. ACCOUNTABILITY AND AUDIT (continued)

Internal Controls

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls, and risk management functions.

The Group maintain a centralised cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

Auditors' Remuneration

During the year under review, the remuneration paid to the Group's external auditors, Messrs. Ernst & Young is set out as follows :

| | Fee Paid / Payable 2005 (US\$'000) |
|----------------------------|--|
| Audit Services | 639 |
| Taxation Advisory Services | 3 |
| Other Advisory Services | 36 |

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, press announcements and circulars made through the Company's and Stock Exchange's websites.

The annual general meeting or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of AC and RC, or in their absence, members of the committees or senior management of the Company should be available to answer the shareholders' questions. The Chairman of the independent board committee should also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.



C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS (continued)

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting despatching to the shareholders of the Company. The Chairman of the meeting should ensure compliance with the voting by poll requirement.

The Company should count all proxy votes, and except where a poll is required, the Chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should ensure that votes cast are properly counted and records.

The Chairman of the meeting should at the commencement of the meeting ensure that an explanation is provided of (1) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

The Company regularly releases latest corporate news of the Group's developments on its website at <http://www.cpp.hk>. The public are welcome to give comments and make enquiries through the Company's website.

