## 19. INVESTMENT PROPERTIES

| | Notes | GROUP 2005 US$'000 | 2004 US$'000 |
|---|---|---|---|
| Long term leases in Hong Kong, at valuation: | | | |
| At beginning of year | | **214** | 61 |
| Transfers from/(to) owner-occupied property | *18* | **(97)** | 81 |
| Net profit from a fair value adjustment | | **4** | 72 |
| At end of year | | **121** | 214 |
| Medium term leases in Mainland China, at valuation: | | | |
| At beginning of year | | **3,020** | 3,705 |
| Transfers to owner-occupied property, net | | **–** | (685) |
| Exchange realignment | | **44** | – |
| | | **3,064** | 3,020 |
| At end of year | | **3,185** | 3,234 |

The investment property in Hong Kong is held under long term leases. The property was revalued by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers, on an open market basis, at 31st December, 2005.

The investment properties in Mainland China are held under medium term leases. The properties were revalued by B.I. Appraisals Limited, independent professionally qualified surveyors, Hainan Haixin Accountant Affairs Office and Wuhan Zheng Hao Certified Public Accountants, on a depreciated replacement cost basis, at 31st December, 2005.

## 19. INVESTMENT PROPERTIES (continued)

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 |



## 20. LAND LEASE PREPAYMENTS

| | | GROUP | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Notes* | ***US$'000*** | *US$'000* |
| Carrying amount at 1st January | | **38,643** | 41,049 |
| Additions | | **683** | 2,822 |
| Disposals | | **(527)** | (642) |
| Acquisition of subsidiaries | *39(a)* | **–** | 378 |
| Disposal of subsidiaries | *39(b)* | **–** | (3,769) |
| Amortisation during the year | *10* | **(1,330)** | (1,195) |
| Exchange realignment | | **813** | – |
| Carrying amount at 31st December | | **38,282** | 38,643 |

The land lease prepayments are held on a medium term basis and are situated in Mainland China.

## 21. NON-CURRENT LIVESTOCK

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Livestock: | | |
| at fair value | **8,350** | 3,763 |
| at cost | **1,514** | 851 |
| | **9,864** | 4,614 |
| Physical quantity of pigs: | **Number of pigs** | |
| Progeny pigs | **92,922** | 48,361 |
| Breeder pigs | **17,201** | 9,817 |
| | **110,123** | 58,178 |

The Group's non-current livestock comprises progeny and breeder pigs owned by subsidiaries. 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 to 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, and

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

## 21. NON-CURRENT LIVESTOCK (continued)

| | | GROUP | |
|---|---|---|---|
| | | 2005 | 2004 |
| | Notes | US$'000 | US$'000 |
| A reconciliation of changes in the carrying amount: | | | |
| Carrying amount at 1st January | | 4,614 | 4,829 |
| Increase due to purchases/raising | | 34,889 | 17,863 |
| Gain arising from changes in fair value less estimated point-of-sale costs, net | 8 | 1,149 | – |
| Decrease due to sales | | (30,788) | (18,078) |
| Carrying amount at 31st December | | 9,864 | 4,614 |

## 22. INTERESTS IN SUBSIDIARIES

| | COMPANY | |
|---|---|---|
| | 2005 | 2004 |
| | US$'000 | US$'000 |
| Unlisted shares, at cost | 61,323 | 64,280 |
| Due from subsidiaries | 321,035 | 311,646 |
| Due to subsidiaries | (72,401) | (74,711) |
| | 309,957 | 301,215 |
| Impairment | (88,400) | (88,400) |
| | 221,557 | 212,815 |

The amounts due from and to subsidiaries are unsecured, bear interest at LIBOR plus 0.5% per annum (2004: LIBOR plus 0.5% per annum) and have no fixed terms of repayment. The carrying amounts of these amounts due from and to subsidiaries approximate to their fair values.

Particulars of the Company's principal subsidiaries are presented on pages 127 to 137 of the financial statements.

## 23. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Unlisted investments: | | |
| Share of net assets | **46,149** | 25,843 |
| Due from jointly controlled entities | **17,837** | 19,684 |
| Due to jointly controlled entities | **(10,888)** | (4,217) |
| | **53,098** | 41,310 |
| Impairment | **(1,666)** | (5,340) |
| | **51,432** | 35,970 |

The amounts due from and to jointly controlled entities are unsecured, bear interest at rates ranging from 0% to 7.2% (2004: 0% to 6.7%) and have no fixed terms of repayment. The carrying amounts of these amounts due from and to jointly controlled entities approximate to their fair values.

Particulars of the principal jointly controlled entities are presented on pages 138 to 139 of the financial statements.

A significant number of the Group's interests in jointly controlled entities are Sino-foreign joint ventures established in Mainland China. Details of the factors affecting the distribution of earnings from these joint ventures are set out in note 38 to the financial statements.

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

## 23. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The following summary of financial information, prepared on a combined 100% basis, presents the combined financial position and results of operations of all jointly controlled entities involved in the agribusiness and industrial business at the balance sheet date, accounted for by the Group using the equity method, for the years ended 31st December, 2005 and 2004:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Agribusiness in Mainland China** | **Industrial business in Mainland China** | Agribusiness in Mainland China | Industrial business in Mainland China |
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| Property, plant and equipment and land lease prepayments | **83,869** | **42,297** | 209,278 | 43,406 |
| Available-for-sale investments | **119** | **1,568** | 904 | 175 |
| Long term receivables and other assets | **458** | **323** | 300 | 317 |
| Current assets | **105,013** | **118,176** | 178,033 | 102,476 |
| Creditors: Amounts falling due within one year | **(222,843)** | **(70,948)** | (417,024) | (63,137) |
| Net current assets/(liabilities) | **(117,830)** | **47,228** | (238,991) | 39,339 |
| Creditors: Amounts falling due after one year | **(3,611)** | **(10)** | (5,958) | (10) |
| | **(36,995)** | **91,406** | (34,467) | 83,227 |
| Shareholders' funds | **(36,995)** | **91,412** | (34,467) | 83,228 |
| Minority interests | **–** | **(6)** | – | (1) |
| | **(36,995)** | **91,406** | (34,467) | 83,227 |
| Turnover | **588,514** | **258,024** | 725,119 | 248,748 |
| Profit/(loss) before tax | **(694)** | **12,583** | (87,258) | 12,259 |
| Tax | **(738)** | **(1,557)** | (258) | (2,680) |
| Profit/(loss) after tax | **(1,432)** | **11,026** | (87,516) | 9,579 |
| Minority interests' share of profits and losses | **–** | **–** | – | 10 |
| Profit/(loss) for the year | **(1,432)** | **11,026** | (87,516) | 9,589 |
| Group's proportionate share of profits and losses after tax for the year | **973** | **4,810** | (29,526) | 3,486 |

The prior year's loss after tax of the agribusiness in Mainland China 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).

## 24. INTERESTS IN ASSOCIATES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Unlisted investments: | | | | |
| At cost | **–** | – | **15,000** | 15,000 |
| Share of net assets | **13,274** | 10,881 | **–** | – |
| Provision for non-recovery | **–** | – | **(15,000)** | (15,000) |
| | **13,274** | 10,881 | **–** | – |
| Due from associates | **14,774** | 15,045 | **14,773** | 14,773 |
| Due to associates | **–** | (120) | **–** | – |
| Provision for non-recovery | **–** | – | **(14,773)** | (14,773) |
| | **28,048** | 25,806 | **–** | – |

The amounts due from and to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from and to associates approximate to their fair values.

Particulars of the associates are presented on page 139 of the financial statements.

A significant number of the Group's interests in associates are joint ventures established in Mainland China. Details of the factors affecting the distribution of earnings from these associates are set out in note 38 to the financial statements.

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

## 24. INTERESTS IN ASSOCIATES (continued)

The following summary of financial information, prepared on a combined 100% basis, presents the combined financial position and results of operations of all associates involved in the agribusiness at the balance sheet date, accounted for by the Group using the equity method, for the years ended 31st December, 2005 and 2004:

| | Agribusiness in Mainland China | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Property, plant and equipment and land lease prepayments | **18,048** | 17,672 |
| Available-for-sale investments | **6,665** | 6,527 |
| Long term receivables and other assets | **1,129** | 1,105 |
| Current assets | **36,347** | 35,590 |
| Creditors: Amounts falling due within one year | **(9,964)** | (9,756) |
| Net current assets | **26,383** | 25,834 |
| | **52,225** | 51,138 |
| Shareholders' funds | **51,373** | 50,303 |
| Minority interests | **852** | 835 |
| | **52,225** | 51,138 |
| Turnover | **134,841** | 129,909 |
| Profit before tax | **8,670** | 3,711 |
| Tax | **(3,942)** | (1,294) |
| Profit after tax | **4,728** | 2,417 |
| Minority interests' share of profits and losses | **59** | 730 |
| Profit for the year | **4,787** | 3,147 |
| Group's proportionate share of profits and losses after tax for the year | **2,393** | 1,573 |

## 25. AVAILABLE-FOR-SALE INVESTMENTS

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Listed investments, at market value | **535** | 524 |
| Unlisted investments, at fair value | **945** | 1,054 |
| | **1,480** | 1,578 |

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated equity, are reasonable, and that they are the most appropriate values at the balance sheet date.

## 26. GOODWILL

| | | GROUP | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Notes* | ***US$'000*** | *US$'000* |
| At 1st January, net of accumulated impairment | | **2,703** | 2,820 |
| Acquisition of subsidiaries | *39(a)* | **–** | 6,887 |
| Impairment during the year | *9, 10* | **–** | (7,004) |
| At 31st December, net of accumulated impairment | | **2,703** | 2,703 |

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

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

- Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year; and

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

## 27. DEFERRED TAX

### Deferred tax assets

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| At 1st January | **2,272** | 2,524 |
| Charge/(credit) for the year *(note 15)*: | | |
| Decelerated depreciation for tax purposes | **(529)** | (6) |
| Losses available for offset against future taxable profits | **1,339** | (749) |
| Other temporary differences | **(678)** | 503 |
| | **132** | (252) |
| At 31st December | **2,404** | 2,272 |

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

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Decelerated depreciation for tax purposes | **9** | 538 |
| Losses available for offset against future taxable profits | **2,395** | 1,056 |
| Other temporary differences | **–** | 678 |
| | **2,404** | 2,272 |

### 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$208,179,000 (2004: US$209,311,000) 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.

## 28. CURRENT LIVESTOCK

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Breeder chicks | **11,072** | 7,521 |
| Hatchable eggs | **2,112** | 2,807 |
| Day-old chicks | **5,285** | 3,606 |
| | **18,469** | 13,934 |
| Provision for impairment | **(964)** | (794) |
| | **17,505** | 13,140 |

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.

## 29. INVENTORIES

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Raw materials | **102,369** | 97,266 |
| Work in progress | **11,924** | 12,856 |
| Finished goods | **56,083** | 50,943 |
| | **170,376** | 161,065 |
| Provision against inventories | **(6,516)** | (6,735) |
| | **163,860** | 154,330 |

## 30. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND DEPOSITS

The Group normally grants a credit period of up to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable, other receivables and deposits are non-interest bearing. An aged analysis of the accounts receivable, other receivables and deposits of the Group is as follows:

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Less than 90 days | **23,675** | 22,826 |
| 91 to 180 days | **1,781** | 936 |
| 181 to 360 days | **805** | 1,449 |
| Over 360 days | **4,991** | 4,761 |
| | **31,252** | 29,972 |
| Other receivables and deposits | **37,878** | 38,750 |
| | **69,130** | 68,722 |
| Provision for bad and doubtful debts | **(5,101)** | (10,411) |
| | **64,029** | 58,311 |

## 31. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from and to related companies are unsecured, non-interest bearing 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. The carrying amounts of these amounts due from and to related companies approximate to their fair values.

## 32. CASH AND CASH EQUIVALENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Time deposits | **739** | 1,188 | **280** | 1,188 |
| Cash and bank balances | **65,215** | 82,869 | **710** | 9,791 |
| | **65,954** | 84,057 | **990** | 10,979 |
| Less: Cash held in escrow accounts* | **–** | (9,688) | **–** | (9,688) |
| | **65,954** | 74,369 | **990** | 1,291 |

* In the prior year, escrow accounts were held in order to settle further claims on the Company, if any, on debts guaranteed by the Company to its subsidiaries in Mainland China. The escrow accounts have been utilised upon the success in debts restructuring during the year as detailed in note 2 to the financial statements.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

## 33. 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 | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Less than 90 days | **85,148** | 92,189 |
| 91 to 180 days | **5,183** | 6,329 |
| 181 to 360 days | **1,532** | 4,530 |
| Over 360 days | **2,848** | 1,863 |
| | **94,711** | 104,911 |
| Other payables and accrued expenses | **99,269** | 91,546 |
| | **193,980** | 196,457 |

Accounts payable are non-interest bearing and are normally settled on 60-day terms. Other payables and accrued expenses are non-interest bearing and have an average term of one month.

## 34. INTEREST-BEARING BANK LOANS AND OTHER LOANS

| | Effective interest rate (%) | Maturity | GROUP 2005 US$'000 | GROUP 2004 US$'000 | COMPANY 2005 US$'000 | COMPANY 2004 US$'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Bank loans, secured | 4.7% – 8.0% | 2006 | **140,184** | 172,544 | **–** | – |
| Bank loans, unsecured | 4.7% – 8.4% | 2006 | **243,650** | 250,517 | **11,750** | 68,525 |
| Other short term loans, unsecured | 6.0% – 6.1% | 2006 | **5,155** | 4,333 | **–** | 4,126 |
| Floating rate notes, unsecured | 3.6% – 4.8% | 2005 | **–** | 99,202 | **–** | 99,202 |
| | | | **388,989** | 526,596 | **11,750** | 171,853 |
| **Non-current** | | | | | | |
| Bank loans, secured | 6.7% | 2007 | **3,077** | 2,410 | **–** | – |
| Bank loans, unsecured | 5.0% – 6.7% | 2012 | **133,352** | 24,930 | **122,625** | – |
| | | | **136,429** | 27,340 | **122,625** | – |
| | | | **525,418** | 553,936 | **134,375** | 171,853 |

| | GROUP 2005 US$'000 | GROUP 2004 US$'000 | COMPANY 2005 US$'000 | COMPANY 2004 US$'000 |
|---|---|---|---|---|
| Analysed into: | | | | |
| Bank loans and other loans repayable within a period: | | | | |
| Not exceeding one year or on demand | **388,989** | 526,596 | **11,750** | 171,853 |
| Of more than one year, but not exceeding two years | **25,639** | 14,920 | **12,975** | – |
| Of more than two years, but not exceeding five years | **63,673** | 12,420 | **62,625** | – |
| Of more than five years | **47,117** | – | **47,025** | – |
| | **525,418** | 553,936 | **134,375** | 171,853 |

## 34. INTEREST-BEARING BANK LOANS AND OTHER LOANS (continued)

Certain of the Group's property, plant and equipment and land lease prepayments located in Mainland China with a net book value of US$218,724,000 (2004: US$249,968,000) 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 4.7% to 8.4% (2004: 2.2% to 7.4%) per annum.

On 28th February, 2001, the Company entered into a 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 for the year ended 31st December, 2004. On 22nd April, 2005, the debt and capital restructurings were successfully completed and all the outstanding floating rate notes and certain bank loans were fully repaid to the Lenders.

## 35. SHARE CAPITAL

### Shares

| | *Notes* | **Number of shares** | **2005 *US$'000*** | 2004 *US$'000* |
|---|---|---|---|---|
| Authorised: | | | | |
| 15,000,000,000 ordinary shares of US$0.01 each (2004: 3,000,000,000 ordinary shares of US$0.05 each) | *(i)(b)* | | **150,000** | 150,000 |
| Issued and fully paid: | | | | |
| At beginning of year (ordinary shares of US$0.05 each) | *(i)(a)* | 2,158,480,786 | **107,924** | 107,924 |
| Capital reduction | *(i)(c)* | – | **(86,339)** | – |
| Issue of subscription shares | *(ii)* | 731,250,000 | **7,313** | – |
| At end of year (2005: ordinary shares of US$0.01 each; 2004: ordinary shares of US$0.05 each) | | 2,889,730,786 | **28,898** | 107,924 |

## 35. SHARE CAPITAL (continued)

### Shares (continued)

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

(i) On 21st April, 2005, the shareholders approved the share capital of the Company be reorganised in the following manners:

(a) the paid-up capital and nominal value of each issued share was 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 of the Company;

(b) the authorised but unissued shares be cancelled and the authorised share capital of the Company was increased to the original level by the creation of the requisite number of shares of nominal value US$0.01 each; and

(c) the credit of approximately US$86,339,000 (based on the 2,158,480,786 shares in issue) arising from the capital reduction was applied to the contributed surplus account of the Company, where, together with the contributed surplus brought forward from prior years of US$6,093,000, was utilised by the directors in accordance with the bye-laws of the Company and all applicable laws, to eliminate the accumulated losses of the Company.

(ii) The Company and Worth Access Trading Limited ("Worth Access"), an associate of the controlling shareholder of the Company, entered into a subscription agreement dated 2nd March, 2005 ("Subscription Agreement") for raising new equity by way of the subscription. The subscription shares were issued at a price of HK$0.32 per share for an aggregate consideration of HK$234,000,000 (US$30,000,000). 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) before the capital reorganisation. The implementation of the capital reorganisation will allow the Company to proceed with the subscription.

The capital reorganisation was finalised on 22nd April, 2005. On the same day, the subscription shares were issued and allotted to Worth Access.

Under the Subscription Agreement, the subscription shares were issued with warrants to subscribe for up to an aggregate of 577,940,000 shares. Worth Access has been granted the subscription rights to subscribe 577,940,000 shares under the following conditions:

| Exercise Period | Exercise Price |
|---|---|
| From 22nd April, 2005 to 21st April, 2006 | HK$0.45 per share |
| From 22nd April, 2006 to 21st April, 2007 | HK$0.50 per share |
| From 22nd April, 2007 to 21st April, 2008 | HK$0.55 per share |

As at the balance sheet date, Worth Access confirmed that they would not exercise the subscription rights in the first exercise period from 22nd April, 2005 to 21st April, 2006 as stipulated under the terms and conditions of the Subscription Agreement.

## 35. 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. On 19th May, 2005, the Company further approved the grant of 236,848,078 share options. Options granted under the Scheme can be exercised at any time during a period not exceeding 10 years commencing from the date the option was approved and expiring on the last day of such period or 10 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 is determinable by the directors, and commences after the grant 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 highest 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 of the Company.

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

## 35. 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 | Number of share options: At 1st January, 2005 | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | At 31st December, 2005 | Date of grant | Exercise period | Exercise price HK$ | Share price at the date of grant HK$ |
|---|---|---|---|---|---|---|---|---|---|---|
| Directors | | | | | | | | | | |
| Mr. Sumet Jiaravanon | 12,800,000 | – | – | – | – | 12,800,000 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 12,800,000 | – | – | – | – | 12,800,000 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 12,000,000 | – | – | – | 12,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| Mr. Dhanin Chearavanont | 12,800,000 | – | – | – | – | 12,800,000 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 12,800,000 | – | – | – | – | 12,800,000 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 12,000,000 | – | – | – | 12,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| Mr. Thanakorn Seriburi | 17,500,000 | – | – | – | – | 17,500,000 | 10th August, 1998 | 10th August, 1998 to 10th August, 2008 | 0.3875 | 0.2800 |
| | 21,584,807 | – | – | – | – | 21,584,807 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 20,000,000 | – | – | – | – | 20,000,000 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 21,000,000 | – | – | – | 21,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |

## 35. 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 | Number of share options: At 1st January, 2005 | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | At 31st December, 2005 | Date of grant | Exercise period | Exercise price *HK$* | Share price at the date of grant *HK$* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** (continued) | | | | | | | | | | |
| Mr. Meth Jiaravanont** | – | 21,000,000 | – | – | – | 21,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| Mr. Robert Ping-Hsien Ho** | 21,584,807 | – | – | – | – | 21,584,807 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 20,000,000 | – | – | – | – | 20,000,000 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 21,000,000 | – | – | – | 21,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| Mr. Jaran Chiaravanont* | – | 12,000,000 | – | – | – | 12,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| Mr. Montri Jiaravanont* | – | 12,000,000 | – | – | – | 12,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| Mr. Prasert Poongkumarn* | 21,584,807 | – | – | – | – | 21,584,807 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 20,000,000 | – | – | – | – | 20,000,000 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 21,000,000 | – | – | – | 21,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| Mr. Min Tieanworn* | 21,584,807 | – | – | – | – | 21,584,807 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 20,000,000 | – | – | – | – | 20,000,000 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 21,000,000 | – | – | – | 21,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |

## 35. SHARE CAPITAL (continued)

### Share option scheme (continued)

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

| | Number of share options | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name or category of participant | At 1st January, 2005 | Granted during the year | Exercised during the year | Expired during the year | Forfeited during the year | At 31st December, 2005 | Date of grant | Exercise period | Exercise price *HK$* | Share price at the date of grant *HK$* |
| **Directors** (continued) | | | | | | | | | | |
| Mr. Thirayut Phitya-Isarakul* | 25,000,000 | – | – | – | – | 25,000,000 | 10th August, 1998 | 10th August, 1998 to 10th August, 2008 | 0.3875 | 0.2800 |
| | 21,584,807 | – | – | – | – | 21,584,807 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 20,000,000 | – | – | – | – | 20,000,000 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 21,000,000 | – | – | – | 21,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| Mr. Veeravat Kanchanadul* | 21,584,807 | – | – | – | – | 21,584,807 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 20,000,000 | – | – | – | – | 20,000,000 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 21,000,000 | – | – | – | 21,000,000 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| **Other senior executives in aggregate** | 60,739,236 | – | – | – | – | 60,739,236 | 26th February, 2003 | 26th February, 2003 to 25th February, 2013 | 0.3900 | 0.3150 |
| | 49,248,078 | – | – | – | – | 49,248,078 | 3rd May, 2004 | 3rd May, 2004 to 2nd May, 2014 | 0.3900 | 0.1620 |
| | – | 41,848,078 | – | – | – | 41,848,078 | 19th May, 2005 | 19th May, 2005 to 18th May, 2015 | 0.3540 | 0.3400 |
| **Other employees in aggregate** | 7,700,000 | – | – | – | – | 7,700,000 | 10th August, 1998 | 10th August, 1998 to 10th August, 2008 | 0.3875 | 0.2800 |
| | 460,896,156 | 236,848,078 | – | – | – | 697,744,234 | | | | |

* The abovementioned directors resigned on 13th September, 2005.

** The abovementioned directors were appointed on 13th September, 2005.

## 35. SHARE CAPITAL (continued)

### Share option scheme (continued)

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

| **Expiry date** | **Exercise price** *HK$* | **Number of shares under the issuable share options** |
|---|---|---|
| 10th August, 2008 | 0.3875 | 50,200,000 |
| 25th February, 2013 | 0.3900 | 215,848,078 |
| 2nd May, 2014 | 0.3900 | 194,848,078 |
| 18th May, 2015 | 0.3540 | 236,848,078 |
| | | 697,744,234 |

During the year ended 31st December, 2005, total options granted on 19th May, 2005 were 236,848,078. The estimated fair values of the options are US$8,470,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31st December, 2005:

| | |
|---|---|
| Dividend yield (%) | 0 |
| Dividend volatility (%) | 78.82 |
| Risk-free interest rate (%) | 3.69 |
| Expected life of option (year) | 10 |
| Share price (HK$) | 0.34 |

The expected volatility was determined by using the historical volatility of the Company's share prices over the previous 363 days and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 697,744,234 share options outstanding under the Scheme which represented approximately 24% 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 697,744,234 additional ordinary shares and cash proceeds to the Company of approximately HK$263,468,000 (US$33,778,000) before the related issue expenses.

## 36. RESERVES

### GROUP

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share premium account | Contributed surplus | Share option reserve | Asset revaluation reserve | Capital reserve | Reserve fund | Expansion fund | Exchange equalisation reserve | Accumulated losses | Total | Minority interests | Total |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| At 1st January, 2004 | 51,210 | 6,093 | – | 3,496 | 30,361 | 24,049 | 14,641 | (31,684) | (105,716) | (7,550) | 49,023 | 41,473 |
| Exchange realignment | – | – | – | – | – | – | – | (9) | – | (9) | – | (9) |
| Surplus on revaluation | – | – | – | 3,551 | – | – | – | – | – | 3,551 | – | 3,551 |
| Release upon disposals of subsidiaries (*note 39(b)*) | – | – | – | – | – | – | – | 633 | – | 633 | – | 633 |
| Release upon disposal of a jointly controlled entity | – | – | – | – | – | (4,167) | (5,438) | 9,706 | – | 101 | – | 101 |
| Capital contribution by minority interests | – | – | – | – | – | – | – | – | – | – | 2,774 | 2,774 |
| Dividends paid to minority interests | – | – | – | – | – | – | – | – | – | – | (8,143) | (8,143) |
| Transfers from/(to) accumulated losses | – | – | – | – | – | 788 | 134 | – | (922) | – | – | – |
| Effect of adopting IFRS 3 | – | – | – | – | – | – | – | – | 8,884 | 8,884 | – | 8,884 |
| Net loss for the year | – | – | – | – | – | – | – | – | (62,386) | (62,386) | 8,018 | (54,368) |
| At 31st December, 2004 and 1st January, 2005 | 51,210 | 6,093* | –* | 7,047* | 30,361* | 20,670* | 9,337* | (21,354)* | (160,140)* | (56,776) | 51,672 | (5,104) |
| Issue of shares (*note 35(ii)*) | 22,687 | – | – | – | – | – | – | – | – | 22,687 | – | 22,687 |
| Exchange realignment | – | – | – | – | – | – | – | 3,176 | – | 3,176 | 161 | 3,337 |
| Equity-settled share option arrangements (*note 35*) | – | – | 8,470 | – | – | – | – | – | – | 8,470 | – | 8,470 |
| Surplus on revaluation | – | – | – | 542 | – | – | – | – | – | 542 | – | 542 |
| Release upon disposals of subsidiaries (*note 39(b)*) | – | – | – | – | (1,496) | (676) | (1,281) | 1,415 | – | (2,038) | – | (2,038) |
| Capital reduction (*note 35(i)(c)*) | – | 86,339 | – | – | – | – | – | – | – | 86,339 | – | 86,339 |
| Contributed surplus utilised (*note 35(i)(c)*) | – | (92,432) | – | – | – | – | – | – | 92,432 | – | – | – |
| Transfers from/(to) accumulated losses | – | – | – | – | – | 868 | 2,812 | – | (3,680) | – | – | – |
| Dividends paid to minority interests | – | – | – | – | – | – | – | – | – | – | (3,988) | (3,988) |
| Capital contribution by minority interests | – | – | – | – | – | – | – | – | – | – | 1,952 | 1,952 |
| Acquisition of additional interests in a subsidiary | – | – | – | – | – | – | – | – | – | – | (292) | (292) |
| Net profit for the year | – | – | – | – | – | – | – | – | 4,825 | 4,825 | 5,601 | 10,426 |
| At 31st December, 2005 | 73,897 | –* | 8,470* | 7,589* | 28,865* | 20,862* | 10,868* | (16,763)* | (66,563)* | 67,225 | 55,106 | 122,331 |

* These reserve accounts comprise the debit reserves of US$6,672,000 (2004: US$107,986,000) in the consolidated balance sheet.

## 36. RESERVES (continued)

**COMPANY**

| | Share premium account US$'000 | Contributed surplus US$'000 | Share option reserve US$'000 | Accumulated losses US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1st January, 2004 | 51,210 | 6,093 | – | (66,496) | (9,193) |
| Loss for the year | – | – | – | (48,175) | (48,175) |
| At 31st December, 2004 and 1st January, 2005 | 51,210 | 6,093 | – | (114,671) | (57,368) |
| Issue of shares *(note 35(ii))* | 22,687 | – | – | – | 22,687 |
| Equity-settled share option arrangements *(note 35)* | – | – | 8,470 | – | 8,470 |
| Capital reduction *(note 35(i)(c))* | – | 86,339 | – | – | 86,339 |
| Utilisation for capital reorganisation | – | (92,432) | – | 92,432 | – |
| Loss for the year | – | – | – | (3,110) | (3,110) |
| At 31st December, 2005 | 73,897 | – | 8,470 | (25,349) | 57,018 |

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. During the year, it was utilised by the directors in accordance with the bye-laws of the Company and all applicable laws, to eliminate the accumulated losses of the Company under the capital reorganisation as detailed in note 35(i)(c) to the financial statements.

The nature of the expansion and reserve funds is set out in note 37 below.

The capital reserve mainly represents gains arising from the deemed disposal of a subsidiary and an associate in previous years.

## 37. ACCUMULATED LOSSES

| | GROUP | |
|---|---|---|
| | **2005** | 2004 |
| | ***US$'000*** | *US$'000* |
| Retained in: | | |
| Company | **(25,349)** | (114,671) |
| Reversals of provisions for impairment losses of investments in subsidiaries | **88,400** | 88,400 |
| | **63,051** | (26,271) |
| Subsidiaries | **(70,669)** | (66,748) |
| Jointly controlled entities | **(72,672)** | (78,455) |
| Associates | **13,727** | 11,334 |
| | **(66,563)** | (160,140) |

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 Mainland China are available for distribution, in the form of cash dividends to each of the joint venture partners if 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 IFRSs.

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 the profit distributions. Otherwise, such distributions to the Group outside Mainland China have to be converted into foreign currencies through an approved exchange centre, a successful arrangement of import substitutions, a compensation trade or other means approved by the relevant authorities. Further details on distributions of RMB earnings are set out in note 38 below.

## 38. FOREIGN CURRENCY EXCHANGE

The 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 Mainland China 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 Mainland China 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 People's Bank of China, nor other financial institutions are authorised to engage in foreign exchange transactions in Mainland China to offer forward exchange contracts.

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

## 39. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

### (a) Acquisition of subsidiaries

| | Notes | 2005 US$'000 | 2004 US$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment and land lease prepayments | 18, 20 | – | 6,939 |
| Available-for-sale investments | | – | 5 |
| Interests 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 | 26 | – | 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:

| | 2005 US$'000 | 2004 US$'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) |

## 39. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT (continued)

### (a) Acquisition of subsidiaries (continued)

From the date of acquisition, the subsidiaries contributed US$1,420,000 profit to the Group for the year ended 31st December, 2004. If the combination had taken place at the beginning of the year 2004, the profit for the Group would have been US$7,812,000 and the revenue from continuing operations would have been US$34,492,000 for the year ended 31st December, 2004.

### (b) Disposals of subsidiaries

| | Notes | 2005 US$'000 | 2004 US$'000 |
|---|---|---|---|
| Net assets disposed of: | | | |
| Property, plant and equipment and land lease prepayments | 18, 20 | – | 17,612 |
| Interest in a jointly controlled entity | | (19,390) | – |
| Inventories | | – | 6,763 |
| Accounts receivable, other receivables and deposits | | 196 | 6,817 |
| Amounts due from related companies | | – | 31,636 |
| Bills receivable | | – | 215 |
| Cash and bank balances | | 1 | 4,259 |
| Accounts payable, other payables and accrued expenses | | (37) | (21,587) |
| Amount due to a related company | | (2) | (29,275) |
| Bills payable | | – | (145) |
| Interest-bearing bank loans and other loans | | – | (24,235) |
| | | (19,232) | (7,940) |
| Release of reserves upon disposals | 36 | (2,038) | 633 |
| Transfer to interests in jointly controlled entities | | – | 3,633 |
| Gain on disposal of subsidiaries | 8 | 21,270 | 4,574 |
| | | – | 900 |
| Satisfied by: | | | |
| Cash | | – | 900 |

## 39. NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT (continued)

### (b) Disposals of subsidiaries (continued)

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

| | 2005 | 2004 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Cash consideration | **–** | 900 |
| Cash and bank balances, disposed of | **(1)** | (4,259) |
| Net outflow of cash and cash equivalents in respect of the disposals of subsidiaries | **(1)** | (3,359) |

### (c) Disposal of a jointly controlled entity

On 21st June, 2005, Chia Tai (China) Agro-Industrial Ltd. ("CT Agro"), a wholly-owned subsidiary of the Company, entered into a Sales and Purchase Agreement whereby CT Agro disposed of its whole 50% equity interest in Dong Fang Chia Tai Seed Co. Ltd. to a related company, Chia Tai Biotech Company Limited, for a consideration of approximately US$593,000. The fair value of the net assets shared by the Group at the date of disposal was US$607,000 and resulted a loss on disposal of US$14,000.

## 40. COMMITMENTS

(i) The Group and the Company had the following commitments at the balance sheet date:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Authorised, but not contracted for: | | | | |
| Capital contributions payable to subsidiaries | **13,997** | 16,807 | **–** | – |
| Machinery and equipment | **2,709** | 1,634 | **–** | – |
| | **16,706** | 18,441 | **–** | – |
| Contracted, but not provided for: | | | | |
| Machinery and equipment | **9,817** | 6,042 | **–** | – |
| | **26,523** | 24,483 | **–** | – |

## 40. COMMITMENTS (continued)

(i) The Group and the Company had the following commitments at the balance sheet date: (continued)

In addition, the Group's and the Company's share of capital commitments of the jointly controlled entities, which were not included in the above is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Contracted, but not provided for | **157** | 14 | **–** | – |

(ii) Operating lease arrangements – as lessee

(a) At 31st December, 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Land and buildings: | | | | |
| Within one year | **1,888** | 1,794 | **–** | – |
| In the second to fifth years, inclusive | **5,887** | 5,988 | **–** | – |
| After five years | **14,661** | 16,626 | **–** | – |
| | **22,436** | 24,408 | **–** | – |
| Plant and machinery: | | | | |
| Within one year | **484** | 431 | **–** | – |
| In the second to fifth years, inclusive | **1,371** | 1,545 | **–** | – |
| After five years | **1,181** | 598 | **–** | – |
| | **3,036** | 2,574 | **–** | – |

## 40. COMMITMENTS (continued)

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

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **US$'000** | *US$'000* | **US$'000** | *US$'000* |
| Land and buildings: | | | | |
| Within one year | **72** | 217 | **–** | – |
| In the second to fifth years, inclusive | **248** | 565 | **–** | – |
| After five years | **733** | 2,685 | **–** | – |
| | **1,053** | 3,467 | **–** | – |
| Plant and machinery: | | | | |
| Within one year | **–** | 31 | **–** | – |
| In the second to fifth years, inclusive | **1** | 125 | **–** | – |
| After five years | **–** | 799 | **–** | – |
| | **1** | 955 | **–** | – |

(iii) Operating lease arrangements – as lessor

At 31st December, 2005, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **US$'000** | *US$'000* | **US$'000** | *US$'000* |
| Land and buildings: | | | | |
| Within one year | **299** | 261 | **–** | – |
| In the second to fifth years, inclusive | **704** | 851 | **–** | – |
| After five years | **402** | 493 | **–** | – |
| | **1,405** | 1,605 | **–** | – |
| Plant and machinery: | | | | |
| Within one year | **467** | 457 | **–** | – |
| In the second to fifth years, inclusive | **740** | 1,181 | **–** | – |
| | **1,207** | 1,638 | **–** | – |

## 41. CONTINGENT LIABILITIES

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Guarantees given to banks in connection with facilities granted to: | | | | |
| Jointly controlled entities | **7,372** | 11,954 | **–** | – |
| Related companies | **–** | 1,687 | **–** | – |
| In respect of guarantees given to third parties and discounted bills of exchange | **–** | 791 | **–** | – |
| | **7,372** | 14,432 | **–** | – |

(ii) One of the Group's associates (the "Associate") is being investigated by the Hong Kong Inland Revenue Department (the "IRD") regarding 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 assessment.

The management of the Associate strongly believes that the prior years' tax computations of these Subsidiaries were prepared on a proper basis. However, should the IRD's final assessment be against the Subsidiaries and should the Subsidiaries be required to pay 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.

## 42. 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. Sumet Jiaravanon, Dhanin Chearavanont and Thanakorn Seriburi, directors of the Company; and Messrs. Jaran Chiaravanont, Montri Jiaravanont, Min Tieanworn, Prasert Poongkumarn, Thirayut Phitya-Isarakul and Veeravat Kanchanadul, ex-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 | |
|---|---|---|---|
| | | **2005** | 2004 |
| | *Notes* | ***US$'000*** | *US$'000* |
| Sales of goods to jointly controlled entities and associates | *(i)* | **23,640** | 16,930 |
| Sales of goods to related companies | *(i)* | **40,760** | 58,852 |
| Purchases of raw materials from jointly controlled entities and associates | *(ii)* | **39,907** | 26,923 |
| Purchases of raw materials from related companies | *(ii)* | **1,139** | 19,104 |

*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 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 Group paid a technical fee of US$46,154 (2004: Nil) to Dynamic Corporate Services Limited for the provision of technical and management support services to the Group. The technical fee was determined by reference to the agreed service fees between the parties.

Mr. Robert Ping-Hsien Ho, director of the Company, has beneficial interest in the share capital of Dynamic Corporate Services Limited.

## 42. 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$616,000 (2004: US$610,000) from a related party, C.P. Aquaculture (Hainan) Co. Ltd.

(d) On 21st June, 2005, Chia Tai (China) Agro-Industrial Ltd. ("CT Agro"), a wholly-owned subsidiary of the Company, entered into a Sales and Purchase Agreement whereby CT Agro disposed of its whole 50% equity interest in Dong Fang Chia Tai Seed Co. Ltd. to a related company, Chia Tai Biotech Company Limited, for a consideration of approximately US$593,000 with a loss of approximately US$14,000.

(e) Details of the outstanding balances with related parties are included in note 31 to the financial statements.

(f) Compensation of key management personnel of the Group:

| | 2005<br>*US$'000* | 2004<br>*US$'000* |
|---|---|---|
| Short term employee benefits | **3,313** | 2,499 |
| Employee share option benefits | **6,973** | – |
| Total compensation paid to key management personnel | **10,286** | 2,499 |

The key management personnel of the Group are 17 directors and 5 senior management. Further details of directors' emoluments are included in note 12 to the financial statements.

Apart from sales of goods to jointly controlled entities and associates and purchases of raw materials from jointly controlled entities and associates and related companies in (a) and compensation of key management personnel in (f), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 43. 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.

## 43. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

(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. Appropriate allowances for estimated irrecoverable amounts are recognised in income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

For the industrial sector, the majority of cash from sales is maintained with state-owned banks and their subsidiaries in 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 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 at 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 90-day terms, are recognised and carried at original invoiced amounts less allowances for any uncollectable amount. 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 60-day terms, are carried at cost which is the fair value of the consideration to be paid in 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.

## 43. FINANCIAL INSTRUMENTS (continued)

### Financial risk management objectives and policies (continued)

*(c) Fair value of financial instruments (continued)*

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

Receivables from and payables to related companies are recognised and approximate to their fair values.

(iii) Bank loans

Details of the fair values of bank loans are included in note 34 to the financial statements.

## 44. FINANCIAL RISK MANAGEMENT STRATEGIES RELATING TO LIVESTOCK

The Group is exposed to financial risks arising from the change in cost and supply of feed 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 has 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 feed and will ultimately increase the Group's production costs.

## 45. COMPARATIVE AMOUNTS

Due to the adoption of new IASs and IFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified/restated to conform with the current year's presentation and accounting treatment.

## 46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31st March, 2006.