# C.P. POKPHAND CO. LTD.

(Incorporated in Bermuda with limited liability)
(Stock Code:43)

ANNUAL REPORT
2010

# Contents

China's economy continued to grow at a relatively robust rate in 2010, eclipsing Japan's to become the world's second largest economy. Benefitting from the improving macroeconomic environment during the year, the management team devoted increasing efforts to implement a strategy, effective in creating more value. Moreover, all our staff worked together to deliver long-term sustainable growth for C. P. Pokphand Co. Ltd. ("CPP" or the "Company"), despite frequent outbreaks of animal epidemics and pressures from significantly higher raw material prices and surging labor costs. This has enabled us to produce a satisfactory set of results for both our core feed business and non-core Chlortetracycline ("CTC") and industrial operations. In this regard, I am pleased to report that CPP delivered a year-on-year growth of 14.5 times to US$132.8 million in profit attributable to owners of the Company. Turnover for the year grew significantly to US$1,950.8 million as a result of strong feed-business contribution for a period of ten months.

During the year, we successfully integrated into our operation a feed business which we purchased from our parent company following a restructuring of the subsidiary business. To bolster the management of our feed operation, we established a unit tasked with monitoring the business, a committee on feed prices and a staff training centre. Centralized procurement was enhanced to minimize our exposure to market risk and to ensure the supply of quality raw materials. Sales profitability targets were also set as a reference for product price adjustments to reflect changes in the costs of raw materials. Successful regional strategies that produced outstanding results were also promoted internally on a timely basis. In addition, increased efforts were made to implement our "Sell Service, Sell Value" strategy, which differentiates our products more through a greater emphasis on our services and product quality.

# Chairman's Statement

Leveraging the global dominance of our parent company in the feed industry, we accelerated the development of our feed business and further reinforced our industry-leading position. In October 2010, we entered into an agreement to lease from our parent company four additional feed mills, raising their number to 78 and expanding our coverage from 26 provinces to 28. The newly acquired feed mills are expected to further boost our feed production capacity and sales volume and help us meet China's growing demand for feeds.

Maintaining the high standing of our corporate brand and image has always been of great importance to us. In 2010, our business integrity was once again strongly endorsed publicly in China. Among the accolades received were the China Feed Industry Association's "Leading Corporate Social Responsibility Enterprise in the National Feed Industry" and "Leading Participating Enterprise of Socialist New Farm Construction in the National Feed Industry".

This year marks the beginning of China's 12th Five-Year Plan. The Central Government continues to implement policies that drive the development of agriculture and allocate more financial resources to improve the domestic standard of living, thereby ensuring a bright future for China's animal husbandry and feed industries. According to the China Feed Industry Association, the country's animal feed production is expected to grow at a rate of ten million tons each year over the next decade, ensuring a favorable operating environment for the Company's feed business.

Looking ahead, the Chinese government's decision to strengthen its support for the development of a scientific agricultural industry will undoubtedly benefit the Company. We are leveraging to full potential our strengths in helping farmers to adopt scientific farming practices and scalable operations, which will in turn reinforce our leadership in the market. To this end, we will increase our investment in research and development to meet market demands. Extensive research is also being taken to identify new, high-quality raw materials. Meanwhile, we will continue to monitor the growing conditions of bulk raw material crops in order to gain a more accurate picture of raw-material-supply trends and further enhance our centralized-procurement edge. The Company will also continue to provide disease control, breeding farm construction, feed management and other feed sales services, while improving our service capability in animal health protection. We will focus expertise to better promote our more profitable products, such as pig feed, layer starter feed, layer concentrates and aqua feed. Moreover, we will conduct comprehensive and in-depth analyses of acquisition opportunities to expand our feed business. Internally, we will continue to implement extensive professional training programs to ensure an abundant supply of talented staff for the development of the Company. As for the CTC business, the Company will further strengthen the promotion of Hydrochloride CTC ("HCL CTC") in China to meet market demand.

# Chairman's Statement

The management of CPP will continue to pay attention to major changes in China's economy while diligently pursuing overseas investment opportunities so as to create long-term returns for our shareholders. As an example, CPP and its parent company entered into an option agreement in January 2011, granting the Company an option to acquire from the parent company a majority stake in an integrated livestock and aquaculture company in Vietnam.

Lastly, I would like to extend my deepest gratitude to our staff for their hard work in the past year, as well as to our shareholders, business partners and customers for their continued trust and support.

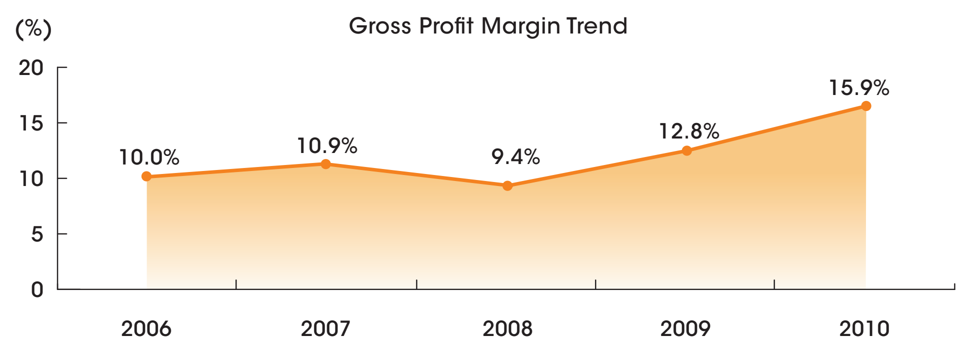
**Dhanin Chearavanont**
*Chairman*

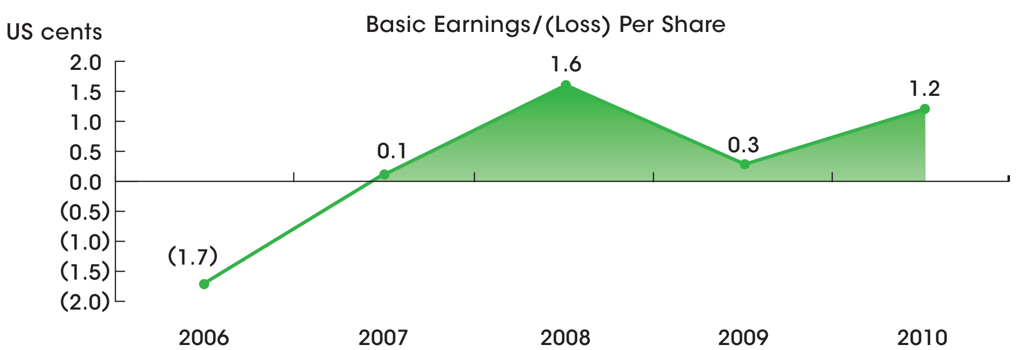
Hong Kong, 25 March 2011

# Financial Highlights

| *(Unit: US$' million)* | **2010** | 2009 |
|---|---|---|
| Key Statement of Comprehensive Income Items | | |
| Turnover | **1,950.79** | 74.25 |
| Gross Profit | **309.85** | 9.53 |
| EBITDA* | **218.04** | 14.54 |
| Profit Attributable to Owners of the Company | **132.84** | 8.55 |
| Basic Earnings Per Share (US cents) | **1.200** | 0.296 |
| Diluted Earnings Per Share (US cent) | **0.777** | N/A |
| Dividend Per Share (HK cents) | **1.600** | 0.500 |
| Key Statement of Financial Position Items | | |
| Cash & Cash Equivalents | **138.07** | 6.64 |
| Total Assets | **1,086.53** | 173.07 |
| Total Bank Borrowings | **239.95** | 9.97 |
| Total Liabilities | **528.38** | 39.29 |
| Total Equity | **558.16** | 133.78 |
| Financial Ratio | | |
| Gross Profit Margin (%) | **15.9%** | 12.8% |
| Net Profit Margin (%) | **6.8%** | 11.5% |
| Total Bank Borrowings to Total Equity Ratio | **0.43** | 0.07 |
| Total Liabilities to Total Equity Ratio | **0.95** | 0.29 |

* Defined as Earnings before Interest, Taxation, Depreciation/Amortization



# 2010 Significant Events

## JAN

Yinchuan Chia Tai's livestock and aquatic feeds honored with the coveted "2009 Ningxia Famous Brand Products" title.

Luoyang Northern Ek Chor Motorcycle and Bangladesh RUNNER Company celebrated their 10th year of working together to distribute Dayang motorcycles in Bangladesh, where there are currently 150,000 proud owners of the Chinese-made motorcycles.

## FEB

CPP announced the successful acquisition of a feed business from its parent company.

## MAR

Huazhong Chia Tai participated in the ILDEX Vietnam Fair in Ho Chi Minh City, where the company successfully seized the opportunity to reinforce existing CTC customer relationships, develop new ones, and raise its profile internationally.

## MAY

More than 20,000 trade delegates around the world visited Huazhong Chia Tai's booth at the breeding industry exhibition, AVESUI, in Brazil where the company showcased its CTC products.

## JUN

CPP announced moves to streamline the structure of its Board in order to enhance its corporate governance practice.

Dayang motorcycle included in the prestigious "2010 China's 500 Most Valuable Brands" with a ranking of 281.

## AUG

Dayang motorcycle unveiled six of its latest scooter models under the four National Standard III series: PoPo II, GeGe, TAISAN and Vorei.

## SEP

Chia Tai China Investment, the feeds investment holding company of the Group, was named one of "Asia Famous & Fine Brand Award".


Pucheng Chai Tai and Huazhong Chia Tai attended the VIV China 2010 Exhibition along with other biochemical units of the C.P. Group.

## OCT

The Group's feed business was named "Leading Corporate Social Responsibility Enterprise in the National Feed Industry" and "Leading Participating Enterprise of Socialist New Farm Construction in the National Feed Industry" by the China Feed Industry Association.

Pucheng Chia Tai showcased its CTC products at the CPHI Exhibition in Paris, which was attended by about 29,000 delegates from around the world.

Zhanjiang Deni and Luoyang Northern Ek Chor Motorcycle showcased its products at the 9th Annual China International Motorcycle Fair Exhibition in Chongqing.

Northern Ek Chor Motorcycle put on show its latest products at the China Import and Export Fair (Canton Fair) in Guangzhou, China, where its products were a focal point for delegates from across the globe during the five-day event.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Overview of China's Economy

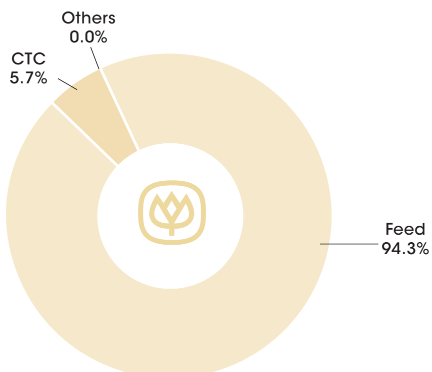
During the year under review, the Chinese government implemented a series of stimulus measures sustaining steady growth in the Chinese economy and continued improvement in national income. The National Bureau of Statistics reported gross domestic product (GDP) increased 10.3% over the previous year. Excluding the impact of price changes, average per capita income in urban and rural areas were respectively 7.8% and 10.9% higher compared to the previous year. Improved living standards across the country has provided support to the demand for both agricultural and consumer products.

Domestic agricultural output continued to grow steadily despite a spate of natural disasters and severe animal health challenges during the year. Meat production increased 3.6% year-on-year while pork production was 3.7% higher over the same period, according to the National Bureau of Statistics. Following a 10.9% year-on-year increase in the costs of agricultural products, feed producers are under pressure from increasing raw materials costs and have to pass on some of the increased costs to feed users. As a result, the domestic prices of swine and broiler feeds rose higher during the year.

## Business Review

On 28 February 2010, the Group announced that it had completed the acquisition of business in China focused on production of animal and aqua feed (the "Acquisition"). Following the Acquisition, feed has become the core business of the Group, giving it an expanded and more diversified income base. The Chlortetracycline ("CTC") and industrial businesses are retained as non-core businesses.

**Sales Distribution**




For the year ended 31 December 2010, the Group reported a profit attributable to owners of US$132.8 million (2009: US$8.6 million), representing a year-on-year increase of 14.5 times and including a contribution from the feed business for a period of 10 months. Total turnover reached US$1,950.8 million, of which 94.3% were contributed by the feed business and 5.7% by the CTC business. Overall gross profit margin increased to 15.9%. Basic earnings per share for the year were US cents 1.200 (2009: US cent 0.296). Diluted earnings per share were US cent 0.777 (2009: not applicable). The Board recommended a final dividend of HK$0.016 (approximately equivalent to US cent 0.205) for the year (2009: HK$0.005 (approximately equivalent to US cent 0.064)) per share.

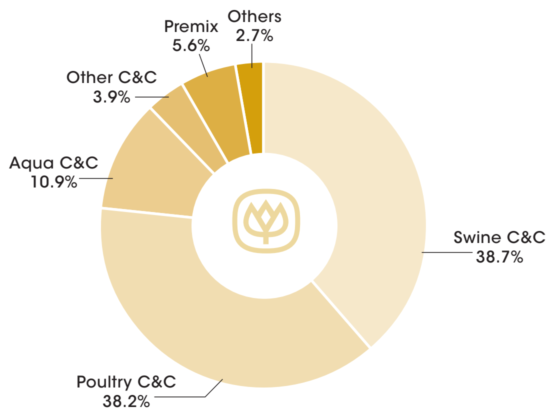
# MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group strengthened its competitive edge. The Group's commitment to research and development continued to add value to products. Grouping products into Nutrition Systems to meet the changing nutritional demands of growing animals through different stages of development and promoting Nutrition Systems as a package enhances production and efficiency at the farm level and demonstrates product value. Enhanced product value combined with comprehensive after-sales services through technical sales associates specialized in various aspects of production management, together with professional sales teams, and an extensive network of exclusive distributors, has ensured continued sales growth. At the same time, through product review and rationalization, an optimized product structure, and flexible pricing, the Group successfully lifted overall gross profit margin to 15.9%.

## Core Business

### Feed

According to statistics from the China Feed Industry Association, total feed production in China continued to grow in 2010. Since completion of the Acquisition, feed revenue for the 10 months to 31 December 2010 amounted to US$1,839.3 million on sales of 3,755,000 tons of animal feed products. By product categories, complete and concentrate feed accounted for 91.7% of total turnover of all feed products. Feed products for swine, poultry, aqua and other animal species made up 38.7%, 38.2%, 10.9% and 3.9%, respectively, while premix feed contributed 5.6%. The Group also reached a feed mill leasing agreement with the parent company in October to further enhance production capacity.




* *C&C defined as complete and concentrate feed product*

During the year, the Chinese government launched a host of measures to support the swine breeding industry and mitigate the economic impact of serious health threats to swine production enterprises. These government initiatives have been successful in boosting the confidence of swine breeders. As a result, hog prices stabilized and gradually picked up in the second half of the year. Although China's swine breeding stock inventory registered a slight decline, sales and volume of the Group's swine complete and concentrate feed grew to US$712.2 million and 1,346,000 tons, respectively. An enhanced product portfolio and the promotion of high value products grouped into Nutrition Systems, including "Chia Tai Zhu San Bao" ("Three Treasures – Three Phase Piglet Nutrition System") –

# MANAGEMENT DISCUSSION AND ANALYSIS

scientifically formulated to reduce the stress of weaning and meet the unique nutritional demands of fast growing piglets prior to and immediately post-weaning – has contributed significantly to the Group's performance.

Poultry prices stabilized in 2010 as the industry continued to consolidate, shifting from small scale to standardized large-scale poultry production. While overall domestic poultry feed production remained steady, turnover of complete and concentrate poultry feed rose to US$702.2 million on a lower volume of 1,712,000 tons.

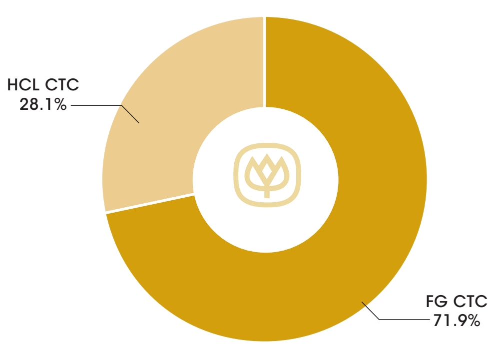
Demand for aqua feed declined as a result of continued cold weather across many parts of China from late 2009 through the spring of 2010, forcing aqua farms to push back their seedling and breeding schedules. As a result, turnover of aqua complete and concentrate feed increased slightly to US$200.3 million on a lower volume of approximately 365,000 tons.

As mentioned above, a surge in the production cost of agricultural products during the year placed feed producers under added pressure. The Group's long-standing reputation for R&D based nutrition products as well as production of safe and consistent quality animal nutrition products has enhanced market recognition for the "Chia Tai" brand. Recognition of the Chia Tai brand and its reputation for product quality and consistency combined with comprehensive after-sales services through technical sales associates specialized in various aspects of production management has allowed the Group to emphasize value and price accordingly. Exclusive distributors, together with professional sales teams have assured the steady supply of product and continued sales growth.

## Non-core Businesses

### Chlortetracycline

CTC's Sales Distribution




In 2010, the Group's CTC business grew strongly as turnover rose 50.4% year-on-year to US$111.2 million, of which domestic sales and exports accounted for 24.8% and 75.2%, while feed-grade CTC ("FG CTC") and Hydrochloride CTC ("HCL CTC") contributed 71.9% and 28.1%, respectively. Exports grew as a result of improved demand in overseas markets and strong growth in Europe and North America. Domestic sales declined somewhat as a result of lower breeding stock in the first half of the year due to animal epidemics.

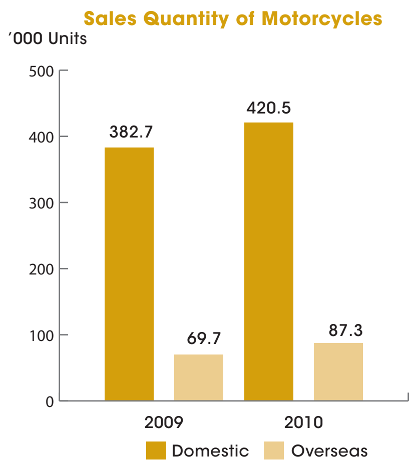
Sales of HCL CTC in both the domestic and overseas markets were up 43.2% and 22.6% year-on-year to 120 tons and 1,220 tons, respectively. Export of FG CTC rose significantly by 32.6% year-on-year to approximately 29,020 tons, while domestic sales were down 16.5% to approximately 13,690 tons.

Demand for CTC grew strongly during the year and drove product prices higher. As a result, gross margin rose back up to relatively higher levels as has been seen in recent years.

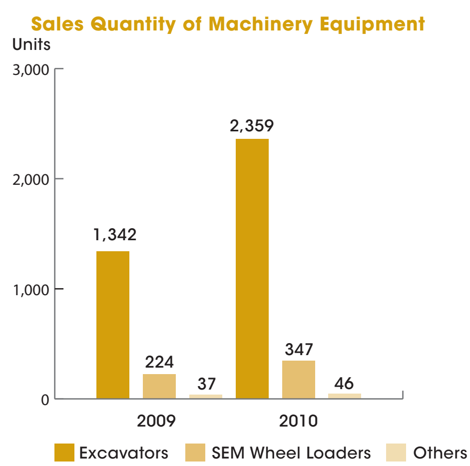
## Industrial Business

The Group's industrial business comprises three jointly-controlled entities. During the year under review, the Group's industrial business continued to grow as profit rose 11.7% year-on-year to US$14.7 million on the back of booming infrastructure investment and strong demand for automobiles.

Sales of automobile in China continued to soar, supporting the demand for automobile accessories. During the year under review, sales of the Group's automobile accessories rose 48.0% year-on-year to 3,847 tons. Sales promotions on motorcycles, launched in line with government policies aimed at stimulating rural consumption, led to a 9.9% increase in sales to about 420,500 units domestically. Meanwhile, sales of motorcycle carburetors rose 8.8% to approximately 6,859,900 units, helping the Group to retain its market leadership. To seize opportunities in the recovering motorcycle market overseas, the Group actively developed new markets while keeping existing customers, which led to a strong year-on-year growth of 25.3% in export by volume.




Infrastructure investment in China continued to sizzle, driving the demand for construction machinery. During the year under review, sales of construction machinery rose 71.7% year-on-year to 2,752 units. In particular, excavator sales rose 75.8% year-on-year to 2,359 units, while Shandong SEM wheel loader sales increased 54.9% year-on-year to 347 units.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Outlook

In the year ahead, it is expected that China and other Southeast Asian countries will adopt contractionary policies leading to a slowdown in economic growth. The Group believes this will not have a negative impact on living standards in China. In fact, a growing demand in China and throughout the region for quality food products and consumer goods coupled with growing concerns over safety, have created a consumer and regulatory environment where quality and safety are valued and encouraged. This environment favors the Group's business activities and interests.

On feed business, the Group will continue to seize opportunities to expand market share. Production capacity has been enhanced after the signing of an agreement on the leasing of 4 feed plants from the Group's parent company. The Group will optimize plant production and efficiency by assigning specific production lines to produce specialized high value nutrition products, such as "Chia Tai Zhu San Bao" ("Three Treasures – Three Phase Piglet Nutrition System") and nutrition products for layers.

The Group will increase R&D investment and take active steps to develop new and high-quality raw materials. Centralized procurement continues to monitor raw material price trends, strengthening and improving overall efficiency. The Group continues to expand technical support services and access to technology for feed users. Promotion of high value products will be increased through comprehensive after-sales services deploying technical sales associates specialized in various aspects of production management, together with professional sales teams. At the same time, internal human resource development will continue to offer employees a broad array of training programs to ensure a skilled and knowledgeable workforce capable of driving the Group's future development and growth.

With regard to merger and acquisition, the Group will seek opportunities within China and internationally. In early 2011, the Group was granted an option by the parent company which gives the Group the option to acquire an integrated livestock and aquaculture company in Vietnam from the parent company. The Group is in the process of evaluating this opportunity taking the long-term interests of shareholders into account.

Following its strong performance in 2010, CTC may adjust its sales forecast depending on market sentiments and stock estimates. Meanwhile, the Group will continue to strengthen the promotion of HCL CTC in mainland China to meet market demand.

Turning to industrial business, in anticipation of further growth in the domestic motorcycle and automotive market, the Group will continue to strengthen its R&D developing motorcycles and auto parts according to market demand. Domestic infrastructure investment is expected to remain strong. The Group will continue to monitor and track major infrastructure projects in the region to capture business opportunities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had total assets of US$1,086.5 million, increased by 527.7% as compared with US$173.1 million as at 31 December 2009.

Total borrowings and borrowings to equity ratio (borrowings to equity ratio is calculated by dividing the total borrowings by total equity) were US$239.9 million and 43.0% respectively, as compared to US$10.0 million and 7.5% as at 31 December 2009.

Most of the borrowings by the Group are in U.S. dollars and Renminbi ("RMB"), and the interest rates ranged from 1.5% per annum to 6.6% per annum.

The Group had not engaged in any derivative for hedging against both the interest and exchange rate.

All sales in the People's Republic of China ("PRC") are transacted in RMB, and export sales are transacted in foreign currencies. Foreign currencies are required for purchase of imported raw materials, parts and components, and the Group keeps necessary foreign currencies to meet its operational needs. The Board considers the appreciation of RMB during the year had no material impact on the Group's business.

## CAPITAL STRUCTURE

The Group finances its working capital requirements through a combination of funds generated from operations and short term bank borrowings. The Group had cash and cash equivalents of US$138.1 million as at 31 December 2010 (31 December 2009: US$6.6 million), an increase of US$131.5 million.

## CHARGES ON GROUP ASSETS

As at 31 December 2010, out of the total borrowings of US$239.9 million (31 December 2009: US$10.0 million) obtained by the Group, US$23.7 million (31 December 2009: US$4.4 million) were secured and accounted for 9.9% of the total. Certain of the Group's property, plant and equipment, land lease prepayments located in the PRC with net book value of US$35.3 million (31 December 2009: US$9.0 million) have been pledged as security for various short term bank borrowings.

## CONTINGENT LIABILITIES

As at 31 December 2010, the guarantees provided by the Group were US$31.3 million (31 December 2009: US$30.6 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save for the acquisition as disclosed in note 35 to the financial statements, the Group did not make any material acquisitions or disposals of subsidiaries or associated companies during the year ended 31 December 2010.

## EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed around 20,000 staff (including 12,000 staff from subsidiaries, 1,000 staff from an associate and 7,000 staff from the jointly-controlled entities) in the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market rate while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical coverage, subsidized training programme as well as share option scheme.

# CORPORATE GOVERNANCE REPORT

C.P. Pokphand Co. Ltd. (the "Company") is committed to maintaining high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value, accountability and sustainability.

## Corporate Governance Practices

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with all the code provisions prescribed in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2010.

This report describes our corporate governance practices and explains the applications of the principles of the CG Code.

## A. Board of Directors

### 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. It 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 financial budget should be retained for the Board's approval. It has formalized 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 to the Board and obtained prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

# CORPORATE GOVERNANCE REPORT

## A. Board of Directors *(continued)*

### Board *(continued)*

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established 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 Board meets regularly and at least 4 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.

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 3 days before the date of scheduled meeting. Where queries are raised by directors, responses are given as promptly and fully as possible within a reasonable time.

The Company Secretary and the Qualified Accountant attend all regular Board meetings and when necessary, other meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. Every director is entitled to have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules and other applicable laws, rules and regulations etc.

## A. Board of Directors *(continued)*

### Board *(continued)*

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 who, and whose associates, have no material interest in the transaction, should be presented at such board meeting.

## A. Board of Directors *(continued)*

### Board Composition

The Board currently comprises 13 members, consisting of 8 executive directors, 2 non-executive directors and 3 independent non-executive directors:

*Executive Directors:*
Mr. Dhanin Chearavanont *(Chairman)*
Mr. Thanakorn Seriburi *(Vice Chairman and Chief Executive Officer (Industrial Division))*
Mr. Soopakij Chearavanont *(Vice Chairman)*
Mr. Anan Athigapanich
Mr. Damrongdej Chalongphuntarat
Mr. Bai Shanlin *(Chief Executive Officer (Feed Division))*
Mr. Suphachai Chearavanont
Mr. Robert Ping-Hsien Ho

*Non-executive Directors:*
Mr. Meth Jiaravanont
Mr. Patrick Thomas Siewert
Mr. Poon Yee Man Alwin *(alternate to Mr. Patrick Thomas Siewert)*

*Independent Non-executive Directors:*
Mr. Ma Chiu Cheung, Andrew
Mr. Sombat Deo-isres
Mr. Sakda Thanitcul

The detailed biographies of the directors are set out in "Biographical Details of Directors" section of this annual report.

## A. Board of Directors *(continued)*

### Board Composition *(continued)*

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 and marketing strategies.

Mr. Dhanin Chearavanont is the father of Messrs. Soopakij Chearavanont and Suphachai Chearavanont and an uncle of Mr. Meth Jiaravanont. Messrs. Soopakij Chearavanont and Suphachai Chearavanont are brothers and they are cousins of Mr. Meth Jiaravanont. Save as disclosed above, there are no family or material relationships among members of the Board.

The independent non-executive directors ("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 actively 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.

## A. Board of Directors *(continued)*

### Chairman and Chief Executive Officer

Mr. Dhanin Chearavanont as Chairman is responsible 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 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.

The Group has two chief executive officers ("CEO"), namely Mr. Thanakorn Seriburi and Mr. Bai Shanlin who manage the business segment of Industrial Division and Feed Division respectively. Each of them has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The positions of Chairman and CEO 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 the two CEOs.

### Appointment and Re-election of Directors

The executive directors are not appointed for a specific term. Each of the non-executive directors and INEDs is appointed for a successive term of one year and is subject to retirement by rotation and re-election by shareholders at general meeting, in accordance with the Company's Bye-laws.

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. The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Bye-laws.

## A. Board of Directors *(continued)*

### Appointment and Re-election of Directors *(continued)*

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. Every new director receive 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 which set out guidelines on statutory and regulatory requirements on the first occasion of his appointment. 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, applicable legal and other regulatory requirements and the governance policies of the Company.

### Directors' and Officers' Insurance

During the year ended 31 December 2010, the Company has arranged appropriate insurance cover in respect of legal action against its directors and officers.

### Board Committees

The Board has established Audit Committee and Remuneration Committee with written terms of reference to enable such committees to discharge their functions properly.

#### Remuneration Committee

The Remuneration Committee ("RC") was established on 13 September 2005. It currently comprises 5 members, namely Messrs. Thanakorn Seriburi (chairman), Patrick Thomas Siewert, Ma Chiu Cheung, Andrew (INED), Sombat Deo-isres (INED) and Sakda Thanitcul (INED). The majority of the members of the RC are INEDs.

# CORPORATE GOVERNANCE REPORT

## A. Board of Directors *(continued)*

### Board Committees *(continued)*

#### Remuneration Committee *(continued)*

The terms of reference of the RC is available for inspection from the Company Secretary on request and is posted on the Company's website. 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 the performance-based remuneration;
- 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 has held a meeting during the year to discuss and review the remuneration policy and package for directors, the attendance of which was set out on pages 25 and 26 of this annual report. 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 10 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 is set out in note 11 to the financial statements.

The Chairman and CEOs would consult the RC about its proposals relating to the remunerations of other executive directors and the RC is able to access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

## A. Board of Directors *(continued)*

### Board Committees *(continued)*

#### Audit Committee

The Audit Committee ("AC") was established on 28 January 1999. It currently comprises three INEDs, namely Messrs. Ma Chiu Cheung, Andrew (chairman), Sombat Deo-isres and Sakda Thanitcul and two non-executive directors, namely Messrs. Meth Jiaravanont and Patrick Thomas Siewert, who together have sufficient accounting and financial management expertises, legal professional knowledges and business experiences to discharge their duties. The terms of reference of the AC were revised on 30 March 2005 and 9 August 2010 in terms substantially the same as the provisions set out in the CG Code.

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

- 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 external auditors;
- reviewing and monitoring the external auditors' independence, 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' audit findings and communications report, any material queries raised by the Qualified Accountant, who is responsible for the Company's accounting and financial reporting function, and the external auditors to management in respect of the accounting records, financial reporting procedures or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised.

## A. Board of Directors *(continued)*

### Board Committees *(continued)*

#### Audit Committee *(continued)*

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

The AC has held three meetings during the year, the attendance of which was set out on pages 25 and 26 of this annual report. The business considered and discussed by AC included the matters referred to below:

- reviewed and discussed with management and the external auditors regarding the financial statements for the year ended 31 December 2009 and audit results and communications report;
- reviewed with management the unaudited interim financial statements for the six months ended 30 June 2010;
- reviewed the findings and recommendations of the internal audit department on the operations and performance of the Group;
- reviewed the effectiveness of internal control system; and
- recommended to the Board, for the approval by shareholders, of the re-appointment of the external 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.

## A. BOARD OF DIRECTORS *(continued)*

### BOARD AND COMMITTEE MEETINGS

During the year ended 31 December 2010, 6 Board meetings, 3 AC meetings and 1 RC meeting have been held. Details of the attendance of the directors were as follows:

| | No. of meetings attended/held | | |
|---|---|---|---|
| | Board | Remuneration Committee | Audit Committee |
| **Executive Directors** | | | |
| Mr. Dhanin Chearavanont | 4/6 | – | – |
| Mr. Thanakorn Seriburi | 4/6 | 1/1 | – |
| Mr. Soopakij Chearavanont | 4/6 | – | – |
| Mr. Anan Athigapanich (appointed on 28 February 2010) | 1/5 | – | – |
| Mr. Damrongdej Chalongphuntarat (appointed on 28 February 2010) | 3/5 | – | – |
| Mr. Bai Shanlin (appointed on 28 February 2010) | 4/5 | – | – |
| Mr. Suphachai Chearavanont | 2/6 | – | – |
| Mr. Robert Ping-Hsien Ho | 6/6 | – | – |
| Mr. Sumet Jiaravanon (resigned on 1 June 2010) | 0/2 | – | – |
| Mr. Nopadol Chiaravanont (resigned on 1 June 2010) | 2/2 | – | – |
| Mr. Chatchaval Jiaravanon (resigned on 1 June 2010) | 0/2 | – | – |
| Mr. Narong Chearavanont (resigned on 1 June 2010) | 1/2 | – | – |
| Mr. Pang Siu Chik (resigned on 1 June 2010) | 2/2 | – | – |
| Mr. Benjamin Jiaravanon (resigned on 28 February 2010) | 0/1 | – | – |

## A. Board of Directors *(continued)*

### Board and Committee Meetings *(continued)*

| | No. of meetings attended/held | | |
|---|---|---|---|
| | Board | Remuneration Committee | Audit Committee |
| **Non-executive Directors** | | | |
| Mr. Meth Jiaravanont (re-designated on 9 August 2010) | 3/6 | – | 2/2 |
| Mr. Patrick Thomas Siewert (appointed on 9 August 2010) | 4/4 | 1/1 | 2/2 |
| Mr. Poon Yee Man Alwin (alternate to Mr. Patrick Thomas Siewert since 9 August 2010) | 4/4 | 1/1 | 2/2 |
| **Independent Non-executive Directors** | | | |
| Mr. Ma Chiu Cheung, Andrew | 6/6 | 1/1 | 3/3 |
| Mr. Sombat Deo-isres | 4/6 | 1/1 | 2/3 |
| Mr. Sakda Thanitcul | 3/6 | 1/1 | 1/3 |

### Securities Transactions by Directors and Officers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards set out in the Model Code throughout the year ended 31 December 2010.

The Company has also adopted a code of securities dealing for all senior management/ employees (the "Code") on terms no less exacting than the Model Code. Officers/employees as defined in the Code 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 securities of the Company during the black-out period for compliance with the Code.

## B. Accountability and Audit

### Financial Reporting

The Board acknowledges its responsibility for preparing the financial statements 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 ensured the timely publication of the financial statements of the Group.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 58 to 59 of this annual report.

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 applicable accounting standards.

### Internal Controls

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

The Board, through the AC, conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls, risk management functions. The Company has appointed a Chief Financial Officer and a Qualified Accountant, both of them have the professional accounting qualifications, to oversee the financial management function of the Group. The Board ensures that the Company has sufficient resources and professional staff for the accounting and financial reporting function.

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

## B. Accountability and Audit *(continued)*

### Internal Controls *(continued)*

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:

| **Category of services** | 2010 *(US$'000)* |
|---|---|
| Audit services | 1,138 |
| Non-audit services | |
| – taxation advisory services | 2 |
| – other advisory services | 644 |
| Total | 1,784 |

## 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, published announcements and circulars made through the Company's and Stock Exchange's websites.

The general meetings provide a forum for the Board to communicate with the shareholders of the Company. To facilitate enforcement of shareholders' rights, significant issues are dealt with under separate resolutions at general meetings. The Board is available to annual general meetings to answer questions raised by shareholders. The chairman of the Company's independent board committee (if any) is also present to answer questions at any general meeting which is convened to approve a connected transaction, or any other transaction that is subject to independent shareholders' approval.

Separate resolutions were proposed at the annual general meeting in 2010 on each substantial issue, including the re-election of individual directors.

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.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS

**Mr. Dhanin Chearavanont**, aged 71, has been an Executive Director of the Company since 1988. He was appointed as the Executive Chairman of the Company in 2005 and this title was subsequently changed to the Chairman with effect from 28 February 2010. Mr. Chearavanont is also the chairman and chief executive officer of the Charoen Pokphand Group. He has extensive experience in establishing and operating businesses in Asia, Europe and USA. He also holds directorship in a subsidiary of the Group. Mr. Chearavanont is also the chairman of Charoen Pokphand Foods Public Company Limited, True Corporation Public Company Limited ("True Corporation") and CP ALL Public Company Limited ("CP ALL") and an advisor to the board of directors of Siam Makro Public Company Limited, which are companies listed on the Stock Exchange of Thailand (the "SET"). He is also an executive director and the chairman of C.P. Lotus Corporation (formerly known as Chia Tai Enterprises International Limited) ("C.P. Lotus"), a company listed on the Main Board of the Stock Exchange.

**Mr. Thanakorn Seriburi**, aged 65, has been an Executive Director of the Company since 1988. He was appointed as an Executive Vice Chairman in 2005 and the Chief Executive Officer and chairman of the Remuneration Committee of the Company in 2008. His titles were subsequently changed to Vice Chairman and Chief Executive Officer (Industrial Division) with effect from 28 February 2010. He also holds directorship in several subsidiaries and jointly-controlled entities of the Group. Mr. Seriburi is also the chairman and CEO of the automotive and other industrial division of the Charoen Pokphand Group. He has been working on investment projects for the Charoen Pokphand Group in the PRC since 1979 and has extensive experience in industrial operations in Asia and elsewhere. Furthermore, Mr. Seriburi is the Chairman of Zheng Xin Bank Co., Ltd., a licensed bank in China.

**Mr. Soopakij Chearavanont**, aged 47, has been an Executive Director of the Company since 2005 and has been appointed as Vice Chairman with effect from 28 February 2010. He obtained a Bachelor of Science degree in the College of Business and Public Administration of New York University, USA and has extensive multinational investment and management experience in various industries. Mr. Chearavanont is also the chief executive officer and vice chairman of C.P. Lotus, a company listed on the Main Board of the Stock Exchange and a director of True Corporation and CP ALL, which are companies listed on the SET. He is also the chairman of True Visions Public Company Limited ("True Visions").

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS *(continued)*

**Mr. Anan Athigapanich**, aged 59, has been appointed as an Executive Director with effect from 28 February 2010. Mr. Athigapanich obtained a Bachelor's degree in Agriculture from Sukhothai Thammatirat University, Thailand and received his Doctor of Agriculture Management from Maejo University, Thailand. He joined the Charoen Pokphand Group in 1977 and is currently the vice chairman of the Group's feed business, responsible for the operation of its feedmill business in Jiangsu, Zhejiang, Yunnan, Guangxi, Fujian and Jiangxi. Mr. Athigapanich has extensive experience in the management of agribusiness operations. He also holds directorships in several subsidiaries of the Group.

**Mr. Damrongdej Chalongphuntarat**, aged 58, has been appointed as an Executive Director with effect from 28 February 2010. Mr. Chalongphuntarat obtained a degree in Commerce from Assumption Commercial College, Bangkok, Thailand. He joined the Charoen Pokphand Group in 1974 and is currently the vice chairman of the Group's feed business, responsible for the operation of its feedmill business in Sichuan, Chongqing, Hubei and Hunan. Mr. Chalongphuntarat has extensive experience in the management of agribusiness operations. He also holds directorships in several subsidiaries of the Group.

**Mr. Bai Shanlin**, aged 51, has been appointed as an Executive Director and Chief Executive Officer (Feed Division) of the Company with effect from 28 February 2010. Mr. Bai obtained a Professional Diploma in Animal Science, Gansu College of Animal Husbandry, the Governmental Exchange Specialist in Agricultural Management from the Australian Ministry of Foreign Affairs and a Specialist Certificate in Livestock Management in the PRC. He joined the Charoen Pokphand Group in 1991 and is currently the vice chairman of the Group's feed business, responsible for the operation of its feedmill business in Xinjiang, Ningxia, Gansu, Shaanxi, Shanxi and Neimenggu. Mr. Bai has extensive experience in the management of agribusiness operations. He is also a part time professor honored by Agricultural University of Gansu and People's University of China. Mr. Bai also holds directorships in several subsidiaries of the Group.

**Mr. Suphachai Chearavanont**, aged 44, has been an Executive Director of the Company since 2008. Mr. Chearavanont obtained a Bachelor of Science degree in Business Administration from Boston University in USA, majoring in Financial Management. He has extensive experience in the telecommunication and broadcasting industries. Mr. Chearavanont is also an executive director of C.P. Lotus, a company listed on the Main Board of the Stock Exchange and a director, president and chief executive officer of True Corporation, a company listed on the SET. He is also a director and chief executive officer of True Visions and True Move Company Limited.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## EXECUTIVE DIRECTORS *(continued)*

**Mr. Robert Ping-Hsien Ho**, aged 62, has been an Executive Director of the Company since 2005. He obtained a Bachelor of Business Administration degree from College of Law, National Taiwan University and has more than 30 years' of experience in management and finance. Mr. Ho is currently an executive director of C.P. Lotus, a company listed on the Main Board of the Stock Exchange, and the chief financial officer, international of the Charoen Pokphand Group. Mr. Ho also holds directorships in several subsidiaries of the Group.

## NON-EXECUTIVE DIRECTORS

**Mr. Meth Jiaravanont**, aged 52, has been re-designated as a Non-executive Director of the Company and appointed as a member of the Audit Committee of the Company with effect from 9 August 2010. Prior to his re-designation, Mr. Jiaravanont has been an Executive Director and an Executive Vice Chairman of the Company since 2005. Mr. Jiaravanont obtained a Bachelor of Arts degree in Economics from Occidental College, California, USA and a Master degree in Business Administration from New York University, USA. He has extensive experience in investment, finance, banking and strategic business development in Asia and USA. Mr. Jiaravanont is also an executive director of C.P. Lotus, a company listed on the Main Board of the Stock Exchange. He is currently the senior executive assistant to the Chairman-Finance director of Charoen Pokphand Group Company Limited and a director of CPPC Public Company Limited.

**Mr. Patrick Thomas Siewert**, aged 55, has been appointed as a non-executive Director and members of the Audit Committee and Remuneration Committee of the Company with effect from 9 August 2010. He is currently a managing director of Carlyle Asia Investment Advisors Limited ("Carlyle") based in Hong Kong. Mr. Siewert has been working at Carlyle since April 2007. Mr. Siewert currently sits on the board of directors of a variety of companies in which funds of Carlyle have investments, including, without limitation, Natural Beauty Bio-Technology Limited, a company listed on the Main Board of the Stock Exchange, China Fishery Group Limited, a company listed on the Stock Exchange of Singapore and Zhejiang Kaiyuan Hotel Management Co., Ltd. Mr. Siewert also sits on the board of directors of Avery Dennison Corporation, a company listed on the New York Stock Exchange and Computime International Limited, a company listed on the Main Board of the Stock Exchange. Mr. Siewert has also been the chairman of Eastern Broadcasting Company Limited since August 2008. Prior to joining Carlyle, Mr. Siewert worked at The Coca-Cola Company from 2001 to 2007 as group president and chief operating officer Asia, and was previously president of Kodak Professional and senior vice president of Eastman Kodak Company. Mr. Siewert received a Master of Science degree in service management from Rochester Institute of Technology and a Bachelor of Science degree in business administration from Elmhurst College.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## NON-EXECUTIVE DIRECTORS *(continued)*

**Mr. Poon Yee Man Alwin**, aged 39, is an Alternate Director of Mr. Patrick Thomas Siewert, a Non-executive Director of the Company, with effect from 9 August 2010. Mr. Poon has been with Carlyle since 2007 and he is currently a director of Carlyle based in Hong Kong focusing on buyout opportunities in Asia. Prior to joining Carlyle, Mr. Poon spent close to ten years at Olympus Capital, an Asia-based private equity fund, where he was most recently a Managing Director and a member of the Investment Committee. Prior to that, Mr. Poon was a management consultant with Bain & Company based in Hong Kong. Mr. Poon received his Master of Science in operations research from University of California, Berkeley and his Bachelor in Science in computer science from Cornell University.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ma Chiu Cheung, Andrew**, aged 69, has been an Independent Non-Executive Director of the Company since 2005. He is the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Ma is a founder and former director of Andrew Ma DFK (CPA) Limited and is presently a director of Mayee Management Limited. He has more than 30 years' experience in the field of accounting, auditing and finance. Mr. Ma received his bachelor's degree in economics from the London School of Economics and Political Science (University of London) in the United Kingdom. He is a fellow member of the Institute of Chartered Accountants in England & Wales, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. In addition to his directorship in the Company, Mr. Ma is also an independent non-executive director of Asia Financial Holdings Limited, Beijing Properties (Holdings) Limited, Tanrich Financial Holdings Limited, China Resources Power Holdings Company Limited and Chong Hing Bank Limited, all of which are companies listed on the Main Board of the Stock Exchange. Furthermore, he is also an independent non-executive director of Asian Citrus Holdings Limited, a company listed on both the Main Board of the Stock Exchange and the AIM Board of The London Stock Exchange.

# BIOGRAPHICAL DETAILS OF DIRECTORS

## INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

**Mr. Sombat Deo-isres**, aged 69, has been an Independent Non-Executive Director of the Company since 2005. He is also a member of the Audit Committee and Remuneration Committee of the Company. Mr. Deo-isres obtained a Bachelor's degree in Laws from Thammasat University and a Master's degree in Laws from Chulalongkorn University, Thailand. He has held various senior positions with the Thai judiciary and is currently a Senior Judge of the Supreme Court of Thailand.

**Mr. Sakda Thanitcul**, aged 52, has been an Independent Non-executive Director and a member of the Audit Committee and Remuneration Committee of the Company since 2008. Mr. Thanitcul holds a Bachelor of Law from Chulalongkorn University, Thailand, Master of Law from Kyoto University, Japan and University of Washington, the United States and Doctor of Law from Kyoto University, Japan and University of Washington, the United States. He has extensive experience in the legal field and is specialized in competition law and the World Trade Organization Agreements. Mr. Thanitcul is presently an Associate Professor of Law and holding a position of Dean at the Faculty of Law, Chulalongkorn University, Bangkok, Thailand.

## RELATIONSHIPS AMONG DIRECTORS

Mr. Dhanin Chearavanont is the father of Messrs. Soopakij Chearavanont and Suphachai Chearavanont and an uncle of Mr. Meth Jiaravanont. Messrs. Soopakij Chearavanont and Suphachai Chearavanont are brothers and they are cousins of Mr. Meth Jaravanont. Saved as disclosed above, there are no family or material relationships among members of the Board.

# Report of the Directors

The directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

As at 31 December 2010, the principal activity of the Company is investment holding and the Group is principally engaged in the operation of feedmills for the production and sale of feed products. Additionally, the Group is also involved in various other relatively smaller businesses, including the production and sale of chlortetracycline products and through its jointly-controlled entities, in the manufacturing and sale of motorcycles, the sale of Caterpillar machinery, and manufacturing and sale of carburetors and automobile accessories.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 60 to 167.

No interim dividend was declared and paid during the year under review (2009: Nil).

The Board has proposed the payment of a final dividend for 2010 of HK$0.016 (approximately equivalent to US cent 0.205) (2009: HK$0.005 (approximately equivalent to US cent 0.064)) per share, totaling approximately US$33,074,000 (2009: US$7,843,000) (based on the total number of issued ordinary shares and convertible preference shares as at the date of this report). Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about Tuesday, 28 June 2011 to the ordinary shareholders and convertible preference shareholders, whose names appear on the register of members of the Company on Wednesday, 15 June 2011.

The register of members of the Company will be closed from Monday, 13 June 2011 to Wednesday, 15 June 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend for 2010, all transfers forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 10 June 2011.

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION

The consolidated assets, liabilities and non-controlling interests, and results of the Group for the five years ended 31 December 2010, as extracted from the published audited financial statements, are as follows:

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | ***US$'000*** | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Total assets | **1,086,534** | 173,073 | 165,764 | 1,061,558 | 971,781 |
| Total liabilities | **528,375** | 39,294 | 48,948 | 948,356 | 870,271 |
| Non-controlling interests | **61,974** | 9,697 | 9,343 | 48,074 | 47,558 |
| Shareholders' equity | **496,185** | 124,082 | 107,473 | 65,128 | 53,952 |
| | **1,086,534** | 173,073 | 165,764 | 1,061,558 | 971,781 |
| Profit/(loss) for the year attributable to owners of the Company | **132,840** | 8,554 | 45,241 | 2,487 | (49,728) |

The above summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 18 to the financial statements.

## INVESTMENT PROPERTIES

Details of movements in the Group's investment properties are set out in note 19 to the financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 33 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2010, the Company's reserves available for distribution amounted to US$42,144,000 (2009: US$25,075,000) which included the proposed final dividend for 2010 of US$33,074,000 (2009: US$7,843,000) proposed on 25 March 2011, further details of proposed final dividend are given in note 16 to the financial statements.

## DONATIONS

During the year, the Group made contributions for charitable and other purposes totalling US$474,000 (2009: US$168,000).

## MAJOR CUSTOMERS AND SUPPLIERS

The turnover and purchases attributable to the five largest customers and suppliers accounted for less than 30% of the Group's turnover and purchases for the year, respectively.

Four of the five largest customers are the subsidiaries of Orient Success International Limited which is an associate of the controlling shareholders of the Company and therefore is a connected person of the Company.

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

# Report of the Directors

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

| | |
|---|---|
| Mr. Dhanin Chearavanont | |
| Mr. Thanakorn Seriburi | |
| Mr. Soopakij Chearavanont | |
| Mr. Anan Athigapanich | (appointed on 28 February 2010) |
| Mr. Damrongdej Chalongphuntarat | (appointed on 28 February 2010) |
| Mr. Bai Shanlin | (appointed on 28 February 2010) |
| Mr. Suphachai Chearavanont | |
| Mr. Robert Ping-Hsien Ho | |
| Mr. Sumet Jiaravanon | (resigned on 1 June 2010) |
| Mr. Nopadol Chiaravanont | (resigned on 1 June 2010) |
| Mr. Chatchaval Jiaravanon | (resigned on 1 June 2010) |
| Mr. Narong Chearavanont | (resigned on 1 June 2010) |
| Mr. Pang Siu Chik | (resigned on 1 June 2010) |
| Mr. Benjamin Jiaravanon | (resigned on 28 February 2010) |

### Non-executive directors:

| | |
|---|---|
| Mr. Meth Jiaravanont | (re-designated on 9 August 2010) |
| Mr. Patrick Thomas Siewert | (appointed on 9 August 2010) |
| Mr. Poon Yee Man Alwin *(alternate to Mr. Patrick Thomas Siewert)* | (appointed on 9 August 2010) |

### Independent non-executive directors:

Mr. Ma Chiu Cheung, Andrew
Mr. Sombat Deo-isres
Mr. Sakda Thanitcul

In accordance with the Company's Bye-law 82, Messrs. Suphachai Chearavanont, Robert Ping-Hsien Ho, Sombat Deo-isres and Sakda Thanitcul will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

## DIRECTORS *(continued)*

In accordance with the Company's Bye-law 77, Mr. Patrick Thomas Siewert, who was appointed as director of the Company by the Board on 9 August 2010, will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors of the Company are appointed for successive term of one year each and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and that the Company considers such directors to have remained independent.

## DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in note 11 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the directors' interests in contracts are set out in note 40 to the financial statements.

Except as disclosed in note 40, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2010, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### (A) DIRECTORS' INTERESTS IN SHARE OPTIONS GRANTED BY THE COMPANY

As at 31 December 2010, the interests of the directors in share options to subscribe for shares in the capital of the Company under the share option scheme adopted by the Company on 26 November 2002 were as follows:

| **Name of director** | **Capacity** | **Number of shares issuable upon exercise of share options held** | **Approximate percentage of the Company's issued ordinary share capital** *(Note)* |
|---|---|---|---|
| Mr. Dhanin Chearavanont | Beneficial owner | 37,600,000 | 0.32% |
| Mr. Thanakorn Seriburi | Beneficial owner | 62,584,807 | 0.54% |
| Mr. Meth Jiaravanont | Beneficial owner | 21,000,000 | 0.18% |
| Mr. Robert Ping-Hsien Ho | Beneficial owner | 62,584,807 | 0.54% |

*Note:* The percentage shown is based on the number of ordinary shares in issue as at 31 December 2010.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

### (b) Directors' interests in associated corporations of the Company (Long Positions)

#### (i) Charoen Pokphand Group Company Limited

| Name of director | Capacity | Number of shares held | Approximate percentage of the issued share capital of the associated corporation |
|---|---|---|---|
| Mr. Dhanin Chearavanont | Beneficial owner | 228,277,810 | 12.96% |
| Mr. Thanakorn Seriburi | Beneficial owner | 11,322,605 | 0.64% |
| Mr. Damrongdej Chalongphuntarat | Beneficial owner | 160,150 | 0.01% |

#### (ii) Kinghill Limited

| Name of director | Capacity | Number of shares held | Approximate percentage of the issued share capital of the associated corporation |
|---|---|---|---|
| Mr. Dhanin Chearavanont | Beneficial owner | 5,882,196 | 2.80% |
| Mr. Thanakorn Seriburi | Beneficial owner | 947,000 | 0.45% |
| Mr. Robert Ping-Hsien Ho | Beneficial owner | 50,000 | 0.02% |

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Save as disclosed above, as at 31 December 2010, none of the directors and chief executives of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he is taken or deemed to have under such provisions of the SFO), recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS AND PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE

As at 31 December 2010, the following persons (not being a director or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of shareholder | *Notes* | Capacity/ Nature of interest | Number of shares held *(Note 1)* | Approximate percentage of the Company's issued ordinary share capital *(Note 2)* |
|---|---|---|---|---|
| CPI Holding Co., Ltd. | (3) | Beneficial owner | 1,004,014,695 (L) | 8.66% |
| C.P. Intertrade Co., Ltd. | (3) | Interest of controlled corporation | 1,004,014,695 (L) | 8.66% |
| Orient Success International Limited | (4) | Beneficial owner and other interest | 15,128,809,377 (L) | 130.42% |
| | | | 3,503,700,001 (S) | 30.20% |
| C.P. International Investment Limited (renamed as CPG Overseas Company Limited on 17 January 2011) | (4 & 5) | Interest of controlled corporation and other interest | 15,610,059,377 (L) | 134.57% |
| | | | 3,503,700,001 (S) | 30.20% |
| Charoen Pokphand Group Company Limited | (4 & 5) | Interest of controlled corporation and other interest | 15,610,059,377 (L) | 134.57% |
| | | | 3,503,700,001 (S) | 30.20% |
| Burnside Asia Holdings Limited | (6) | Beneficial owner and other interest | 5,774,616,668 (L) | 49.78% |
| | | | 2,270,916,667 (S) | 19.58% |
| CAP III Ltd. | (6) | Interest of controlled corporation | 5,774,616,668 (L) | 49.78% |
| | | | 2,270,916,667 (S) | 19.58% |
| Carlyle Offshore Partners II, Ltd. | (6) | Interest of controlled corporation | 5,774,616,668 (L) | 49.78% |
| | | | 2,270,916,667 (S) | 19.58% |
| D. E. Shaw Valence Portfolios, L.L.C. | (7) | Beneficial owner | 1,005,576,933 (L) | 8.67% |
| D. E. Shaw Composite Portfolios, L.L.C. | (7) | Interest of controlled corporation | 1,005,576,933 (L) | 8.67% |
| D. E. Shaw & Co., L.L.C. | (7) | Interest of controlled corporation | 1,005,576,933 (L) | 8.67% |
| D. E. Shaw & Co. II, Inc. | (7) | Interest of controlled corporation | 1,005,576,933 (L) | 8.67% |
| D. E. Shaw & Co. (Asia Pacific) Limited | (7) | Investment manager | 1,005,576,933 (L) | 8.67% |
| D. E. Shaw & Co., L.P. | (7) | Investment manager | 1,005,576,933 (L) | 8.67% |
| D. E. Shaw & Co., Inc. | (7) | Interest of controlled corporation | 1,005,576,933 (L) | 8.67% |
| David Elliot Shaw | (7) | Interest of controlled corporation | 1,005,576,933 (L) | 8.67% |

## SUBSTANTIAL SHAREHOLDERS AND PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE *(continued)*

*Notes:*

(1) The letter "L" denotes a long position and the letter "S" denotes a short position.

(2) The percentage shown is based on the number of ordinary shares in issue as at 31 December 2010.

(3) CPI Holding Co., Ltd. ("CPI Holding") beneficially owned 1,004,014,695 shares of the Company. C.P. Intertrade Co., Ltd. has declared an interest in these shares by virtue of its shareholding in CPI Holding.

(4) Orient Success International Limited ("OSIL") has a long position in 15,128,809,377 shares of the Company and underlying shares, which represent (i) 6,169,803,702 shares of the Company; (ii) 6,688,089,008 shares of the Company upon full conversion of 6,688,089,008 convertible preference shares of the Company (assuming the full repayment of the outstanding advances from the Group to OSIL, its subsidiaries, jointly-controlled entities and associated companies); and (iii) other interest in 2,270,916,667 underlying shares. OSIL also has a short position in 3,503,700,001 shares of the Company and underlying shares. C.P. International Investment Limited ("CP International") is deemed to be interested in the said shares held by OSIL for the purpose of SFO as OSIL is wholly owned by CP International. Charoen Pokphand Group Company Limited ("CPG") also declared interest in these shares by virtue of its shareholding in CP International.

(5) CP International has declared an interest in 481,250,000 shares of the Company which are beneficially owned by its wholly-owned subsidiary. CPG also declared interest in these shares by virtue of its shareholding in CP International.

(6) Burnside Asia Holdings Limited ("Burnside") beneficially owned 2,595,333,334 shares of the Company and underlying shares and other interest in 3,179,283,334 underlying shares, both are in long positions. Burnside also has a short position in 2,270,916,667 underlying shares. CAP III Ltd. ("CAP") has declared an interest in these shares of the Company by virtue of its shareholding in Burnside whilst Carlyle Offshore Partners II, Ltd has also declared an interest in such number of shares of the Company by virtue of its shareholding in CAP.

(7) D. E. Shaw Valence Portfolios, L.L.C. beneficially owned 1,005,576,933 shares of the Company. D. E. Shaw Valence Portfolios, L.L.C., was controlled by D. E. Shaw Composite Portfolios, L.L.C., which was controlled by D. E. Shaw & Co., L.L.C., which was controlled by D. E. Shaw & Co. II, Inc., which in turn was wholly-owned by Mr. David Elliot Shaw, who controls D. E. Shaw & Co., Inc., which controls D. E. Shaw & Co., L.P., which in turn controls D. E. Shaw & Co. (Asia Pacific) Limited. All of these companies and Mr. David Elliot Shaw are deemed under SFO to be interested in the same 1,005,576,933 shares of the Company.

Save as disclosed above, so far as is known to the directors, as at 31 December 2010, no person (not being a director or chief executive of the Company) had an interest or a short position in shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 33 to the financial statements.

The following table discloses the movements in the Company's share options during the year:

| | Number of share options | | | | | |
|---|---|---|---|---|---|---|
| Category of participant | At 1 January 2010 | Granted/ Exercised/ Cancelled/ Lapsed during the year | At 31 December 2010 | Date of grant | Exercise period | Exercise price HK$ |
| (i) Directors | | | | | | |
| Mr. Dhanin Chearavanont | 12,800,000 | – | 12,800,000 | 26 February 2003 | 26 February 2003 to 25 February 2013 | 0.3900 |
| | 12,800,000 | – | 12,800,000 | 3 May 2004 | 3 May 2004 to 2 May 2014 | 0.3900 |
| | 12,000,000 | – | 12,000,000 | 19 May 2005 | 19 May 2005 to 18 May 2015 | 0.3540 |
| Mr. Thanakorn Seriburi | 21,584,807 | – | 21,584,807 | 26 February 2003 | 26 February 2003 to 25 February 2013 | 0.3900 |
| | 20,000,000 | – | 20,000,000 | 3 May 2004 | 3 May 2004 to 2 May 2014 | 0.3900 |
| | 21,000,000 | – | 21,000,000 | 19 May 2005 | 19 May 2005 to 18 May 2015 | 0.3540 |
| Mr. Meth Jiaravanont | 21,000,000 | – | 21,000,000 | 19 May 2005 | 19 May 2005 to 18 May 2015 | 0.3540 |
| Mr. Robert Ping-Hsien Ho | 21,584,807 | – | 21,584,807 | 26 February 2003 | 26 February 2003 to 25 February 2013 | 0.3900 |
| | 20,000,000 | – | 20,000,000 | 3 May 2004 | 3 May 2004 to 2 May 2014 | 0.3900 |
| | 21,000,000 | – | 21,000,000 | 19 May 2005 | 19 May 2005 to 18 May 2015 | 0.3540 |

# Report of the Directors

## SHARE OPTION SCHEME *(continued)*

| Category of participant | At 1 January 2010 | Number of share options Granted/ Exercised/ Cancelled/ Lapsed during the year | At 31 December 2010 | Date of grant | Exercise period | Exercise price HK$ |
|---|---|---|---|---|---|---|
| (ii) Other senior executives in aggregate | 60,739,236 | – | 60,739,236 | 26 February 2003 | 26 February 2003 to 25 February 2013 | 0.3900 |
| | 49,248,078 | – | 49,248,078 | 3 May 2004 | 3 May 2004 to 2 May 2014 | 0.3900 |
| | 41,848,078 | – | 41,848,078 | 19 May 2005 | 19 May 2005 to 18 May 2015 | 0.3540 |
| (iii) Other participants in aggregate | 99,139,228 | – | 99,139,228 | 26 February 2003 | 26 February 2003 to 25 February 2013 | 0.3900 |
| | 92,800,000 | – | 92,800,000 | 3 May 2004 | 3 May 2004 to 2 May 2014 | 0.3900 |
| | 120,000,000 | – | 120,000,000 | 19 May 2005 | 19 May 2005 to 18 May 2015 | 0.3540 |
| | 647,544,234 | – | 647,544,234 | | | |

*Note:* Mr. Sumet Jiaravanon resigned as director on 1 June 2010 and the category of his share options was disclosed in "other participants in aggregate" in the above table.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2010, the Group had entered into the following transactions with connected person (as defined in the Listing Rules) of the Company that was subject to the Listing Rules' reporting requirement for disclosure in annual report:

### (A) Acquisition

On 11 December 2009, the Company entered into an agreement with Orient Success International Limited ("OSIL") in connection with the acquisition of 100% interest in CP China Investment Limited ("CPI") (the "Acquisition Agreement"). Under the terms of the Acquisition Agreement, the Company has agreed to purchase and OSIL has agreed to sell the above interests for a consideration of HK$5,382,000,000, which will be satisfied by the allotment and issue of a total of 16,534,562,212 new ordinary shares and/or convertible preference shares of the Company (subject to possible deduction if the Intercompany Debt (as defined below) is not fully repaid) (the "Acquisition"). Through the Acquisition, the Group will acquire the operation of independent feedmill manufacturing activities in the PRC operated by CPI, its subsidiaries, jointly-controlled entities and associated companies (collectively the "CPI Group").

According to the Acquisition Agreement, the parties agreed to the following transitional arrangements ("Transitional Arrangements") after the completion of the Acquisition (the "Completion"):

(i) OSIL undertook to the Company that, as at the Completion, the outstanding advances from the relevant members of the CPI Group to OSIL, its subsidiaries, jointly-controlled entities and associated companies (collectively the "OSIL Group") amounting to less than US$300,000,000 and shall be fully settled in full within three years from the date of the Completion ("Intercompany Debt").

(ii) The Company agreed that, after the Completion, CPI Group would continue to provide corporate guarantees in respect of the banking facilities which have been extended by financial institutions to the OSIL Group prior to the Completion. OSIL undertook to the Company that, as at the Completion, the aggregate amount of such corporate guarantee will not exceed RMB300,000,000 and all of the relevant banking facilities granted to the OSIL Group involve short terms loans with maturity of one year or less except for one facility of RMB20,000,000 with maturity date on 10 September 2012 ("Transitional Guarantees").

## CONNECTED TRANSACTIONS *(continued)*

### (A) ACQUISITION *(continued)*

OSIL is an associate of the controlling shareholders of the Company and therefore is a connected person of the Company and accordingly, each of the Acquisition and the Transitional Arrangements (including the settlement of the Intercompany Debt and the provision of the Transitional Guarantees) constituted connected transaction of the Company under the Listing Rules.

The Acquisition Agreement (including the Transitional Arrangements) and the transactions contemplated thereunder were approved at the special general meeting of the Company held on 25 January 2010. The Completion of the Acquisition took place on 28 February 2010.

According to the Acquisition Agreement, OSIL has warranted to the Company that the net profit after tax attributable to the owner of CPI for the financial year ended 31 December 2009 should not be less than US$82.0 million ("Profit Warranty").

The independent non-executive directors of the Company have reviewed the unaudited financial information of the CPI Group for the year ended 31 December 2009 and formed the view that OSIL's obligation pertaining to the Profit Warranty has been duly fulfilled.

### (B) PROVISION OF GUARANTEE

On 30 October 2008, Ek Chor China Motorcycle Co. Ltd. ("EKCM"), a wholly-owned subsidiary of the Company, entered into an amendment agreement to the guarantee dated 4 July 2007, in favour of 卡特彼勒(中國)融資租賃有限公司 (Caterpillar (China) Financial Leasing Co., Ltd.) ("CCFL") guaranteeing all present and future indebtedness of ECI Metro Investment Co., Ltd. ("ECI Metro") and its wholly-owned subsidiaries up to the maximum amount of US$30,550,000 (the "Guarantee"), which was expired on 17 April 2010. On 14 March 2011, EKCM has executed the second amendment deed in favour of CCFL to renew the Guaranty up to the maximum amount of US$50.55 million (the "New Guarantee"). ECI Metro is a jointly-controlled entity of the Company, which is indirectly owned as to 50% equity interest by EKCM and the remaining 50% equity interest is owned by an associate of the father-in-law of Mr. Chatchaval Jiaravanon (who, until he resigned as a director of the Company effective on 1 June 2010, was an executive director of the Company). Therefore, ECI Metro is a connected person of the Company and the New Guarantee constituted a connected transaction of the Company under the Listing Rules.

## CONNECTED TRANSACTIONS *(continued)*

### (C) Provision of Loan

On 19 April 2010, EKCM entered into a loan agreement ("Loan Agreement") with ECI Metro. Pursuant to which EKCM has agreed to lend, or procure its direct or indirect subsidiaries or a third party to lend, to ECI Metro the principal amount of up to US$29,000,000 (or its equivalent in RMB) in cash, at a rate per annum equal to the prime rate of interest published by the People's Bank of China on the drawdown date of the loan for RMB borrowings of one-year multiplied by 1.15. The term of the Loan Agreement is one year commencing from the date of the Loan Agreement. As explained in above item (B), ECI Metro is a connected person of the Company and the provision of the loan under the Loan Agreement constituted a connected transaction of the Company under the Listing Rules.

### (D) Provision of Import Agency Services

(i) On 28 April 2010, 正大（中國）投資有限公司 (Chia Tai (China) Investment Co., Ltd.) ("CTICL"), an indirect wholly-owned subsidiary of the Company, entered into an import agency agreement with卜蜂（北海）水產飼料有限公司 (C.P. Aquaculture (Beihai) Co., Ltd.) ("CPPBH") for the provision of import agency services relating to the import of fish meal (feed raw materials) by CTICL to CPPBH at the total service fee of RMB843,150.

(ii) On 28 April 2010, CTICL also entered into an import agency agreement with卜蜂水產飼料（海南）有限公司 (C.P. Aquaculture (Hainan) Co., Ltd.) ("CPPHN") for the provision of import agency services relating to the import of fish meal (feed raw materials) by CTICL to CPPHN at the total service fee of RMB2,268,000.

Each of CPPBH and CPPHN is an associate of the controlling shareholders of the Company and is therefore a connected person of the Company for the purposes of the Listing Rules. The transactions under the aforesaid import agency agreements constituted connected transactions of the Company.

## Continuing connected transactions

During the year ended 31 December 2010, the Group had the following continuing connected transactions that were subject to the Listing Rules' reporting requirement for disclosure in annual report:

### Supply

On 11 December 2009, the Company entered into a supply agreement (the "Master CPP Supply Agreement") with OSIL for the supply by the Group to OSIL Group of various feed-related products such as animal feed, chlortetracycline, animal drugs and feed raw materials. The Master CPP Supply Agreement was approved by the independent shareholders of the Company on 25 January 2010 and took effect on 28 February 2010. Subsequently, the Company entered into a new supply agreement (the "New Master CPP Supply Agreement") with OSIL on 18 October 2010 to replace the Master CPP Supply Agreement. The New Master CPP Supply Agreement and the annual caps were approved by the independent shareholders of the Company on 24 November 2010.

OSIL is an associate of the controlling shareholders of the Company and therefore is a connected person of the Company. Accordingly, the transactions under the Master CPP Supply Agreement and the New Master CPP Supply Agreement constituted continuing connected transactions of the Company within the meaning of the Listing Rules. The total actual sales and annual caps for the abovementioned supply agreements during the year ended 31 December 2010 are RMB2,049,893,000 and RMB2,639,282,000 respectively.

## Continuing connected transactions *(continued)*

### Purchase

On 11 December 2009, the Company entered into a purchase agreement (the "Master CPP Purchase Agreement") with OSIL for the purchase of L-Lysine and edible oil by the Group from OSIL Group. The Master CPP Purchase Agreement was approved by the independent shareholders of the Company on 25 January 2010 and took effect on 28 February 2010. Subsequently, the Company entered into a new purchase agreement (the "New Master CPP Purchase Agreement") with C.P. Trading Co., Ltd. ("CPT") on 18 October 2010 to replace the Master CPP Purchase Agreement. Pursuant to the New Master CPP Purchase Agreement, the Group shall purchase of raw materials for the production of animal and aqua feed products and chlortetracycline products, including but not limited to corn, fishmeal, L-Lysine and edible oil and such other promotional products from CPT and its subsidiaries, jointly controlled entities and associated companies from time to time. The New Master CPP Purchase Agreement and the annual caps were approved by the independent shareholders of the Company on 24 November 2010.

Each of OSIL and CPT is an associate of the controlling shareholders of the Company and therefore each of OSIL and CPT is connected person of the Company. Accordingly, the transactions under the Master CPP Purchase Agreement and the New Master CPP Purchase Agreement constituted continuing connected transactions of the Company within the meaning of the Listing Rules. The total actual sales and annual caps for the abovementioned agreements during the year ended 31 December 2010 are RMB59,207,000 and RMB339,269,000 respectively.

# Report of the Directors

## Continuing connected transactions *(continued)*

### Business Carve-out

On 11 December 2009, the Company entered into a business carve-out agreement (the "Master Business Carve-out Agreement") with OSIL for OSIL's lease and/or use of relevant fixed assets related to non-feed production (comprising land, buildings and plant and machinery) located in the PRC. The Master Business Carve-out Agreement was approved by the independent shareholders of the Company on 25 January 2010 and took effect on 28 February 2010. As approved by an ordinary resolution in the special general meeting of the Company held on 24 November 2010, the approved cap was revised upward.

OSIL is an associate of the controlling shareholders of the Company and therefore is a connected person of the Company. Accordingly, the transactions under the Master Business Carve-out Agreement constituted continuing connected transactions of the Company within the meaning of the Listing Rules. During the year ended 31 December 2010, the aggregate actual rental and approved cap for the transactions contemplated under the Master Business Carve-out Agreement are RMB15,771,000 and RMB22,900,000 respectively.

### Lease

On 18 October 2010, the Company entered into a lease agreement (the "Master Lease Agreement") with OSIL for the Group's lease and/or use of relevant fixed assets related to feed production (comprising land, buildings and plant and machinery) located in the PRC. The Master Lease Agreement and the annual cap were approved by the independent shareholders of the Company on 24 November 2010 and took effect on even date.

OSIL is an associate of the controlling shareholders of the Company and therefore is a connected person of the Company. Accordingly, the transactions under the Master Lease Agreement constituted continuing connected transactions of the Company within the meaning of the Listing Rules. During the year ended 31 December 2010, the aggregate actual rental and approved cap for the transactions contemplated under the Master Lease Agreement are RMB2,008,000 and RMB5,300,000 respectively.

## Continuing connected transactions *(continued)*

The independent non-executive directors of the Company have reviewed the continuing connected transactions of the Group and have confirmed that these continuing connected transactions were entered into (i) in ordinary and usual course of business of the Group; (ii) on normal commercial terms and on terms no less favourable to the Group than terms available to the independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In respect of the connected transactions and continuing connected transactions, the Company has complied with the relevant announcements, reportings and independent shareholders' approval requirements under the Listing Rules from time to time.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

## DISCLOSURE PURSUANT TO RULE 13.13 OF CHAPTER 13 OF THE LISTING RULES

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Rule 13.13 of Chapter 13 of the Listing Rules:

On 28 February 2010, the Company acquired 100% interest in CPI from OSIL, a substantial shareholder and an associate of the controlling shareholders of the Company.

As at 31 December 2010, various entities within the Group have provided funds to certain entities of the OSIL Group and corporate guarantees in respect of banking facilities which have been extended by financial institutions to the OSIL Group collectively exceeded 8% under the assets ratio (as defined under Rule 14.07(1) of Chapter 14 of the Listing Rules), with details set out below:

## DISCLOSURE PURSUANT TO RULE 13.13 OF CHAPTER 13 OF THE LISTING RULES *(continued)*

### (A) INTERCOMPANY DEBT

| | |
|---|---|
| Lender: | The Group |
| Borrower: | OSIL Group |
| Outstanding balance as at 31 December 2010: | US$139,372,000 |
| Repayment date: | Within three years from the date of completion of acquisition (i.e. 28 February 2010), subject to the terms and conditions set out in the relevant acquisition agreement |
| Interest: | Interest-free |
| Security: | Unsecured |

## DISCLOSURE PURSUANT TO RULE 13.13 OF CHAPTER 13 OF THE LISTING RULES *(continued)*

### (B) CORPORATE GUARANTEES

| | |
|---|---|
| Guarantor: | The Group |
| Borrower: | OSIL Group |
| Type and maturity of the relevant banking facilities: | Short term loan with maturity of one year or less except for one facility of RMB20,000,000 with maturity date on 10 September 2012 |
| Maximum amount of the corporate guarantee: | RMB300,000,000 (equivalent to US$45,385,000) |
| Amount of the corporate guarantee utilised as at 31 December 2010: | US$7,564,000 |
| Security: | Secured by an indemnity provided by the OSIL Group to the Group in respect of all losses and costs which the Group may suffer or incur as a result of any demand on the corporate guarantees provided by the Group |

A resolution regarding, inter alia, the provision of the aforesaid intercompany debt and corporate guarantees was duly passed at a special general meeting of the Company on 25 January 2010. Further details were set out in the Company's circular dated 31 December 2009 and announcements dated 25 January 2010 and 7 April 2010.

# Report of the Directors

## DISCLOSURE PURSUANT TO RULE 13.18 OF CHAPTER 13 OF THE LISTING RULES

Save as disclosed below, the directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of Chapter 13 of the Listing Rules as at 31 December 2010.

On 8 March 2010, CPI, a wholly-owned subsidiary of the Company, entered into an amendment agreement (the "Amendment Agreement") with two banks in Thailand (the "Lenders") to amend certain terms under a term loan facility agreement dated 21 August 2008 relating to a facility amount of US$102.8 million granted to CPI by the Lenders (the"Facility Agreement"), which is to be repaid on 4 semi-annual consecutive instalments and will expire on 30 April 2012. As at 31 December 2010, the outstanding amount owed by CPI under the Facility Agreement was US$43.0 million.

Pursuant to the Amendment Agreement, it would be an event of default if CPI fails to procure that the Chearavanont Family (being any one or more of Mr. Jaran Chiaravanont, Mr. Montri Jiaravanont, Mr. Sumet Jiaravanon and Mr. Dhanin Chearavanont (or any company or companies controlled by one or more of them) collectively) at all times maintain their aggregate shareholding (direct or indirect) in the Company at not less than 51%.

The occurrence of the aforesaid event of default would render all outstanding liabilities of CPI under the Facility Agreement to become immediately due and payable.

## COMPETING INTERESTS

During the year, the directors were not aware that any of the directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which falls to be disclosed under the Listing Rules.

## CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. During the year, it has applied the principles and complied with all code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules. Details of compliances are set out in the Corporate Governance Report on pages 15 to 29.

## AUDIT COMMITTEE

The Audit Committee comprised three independent non-executive directors and two non-executive directors of the Company. The establishment of the Audit Committee serves to enhance corporate governance practices. The principle duties of the Audit Committee include the review and supervision of the Company's financial reporting process and internal controls. The Audit Committee reviewed the Group's consolidated financial statements prior to the finalisation of the interim and final results.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules during the year ended 31 December 2010 and up to the date of this report.

## AUDITORS

Messrs. Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Robert Ping-Hsien Ho**
*Director*

Hong Kong
25 March 2011

# INDEPENDENT AUDITORS' REPORT

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**Independent auditors' report**
**To the shareholders of C.P. Pokphand Co. Ltd.**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of C.P. Pokphand Co. Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 60 to 167, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# INDEPENDENT AUDITORS' REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

***Ernst & Young***
Certified Public Accountants
Hong Kong
25 March 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

| | Notes | 2010<br>US$'000 | 2009<br>US$'000 |
|---|---|---|---|
| REVENUE | 7 | **1,950,793** | 74,245 |
| Cost of sales | | **(1,640,946)** | (64,719) |
| Gross profit | | **309,847** | 9,526 |
| Selling and distribution costs | | **(84,907)** | (3,491) |
| General and administrative expenses | | **(75,674)** | (13,867) |
| Other income | 8 | **20,794** | 1,232 |
| Finance costs | 9 | **(14,531)** | (917) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | 22 | **22,485** | 17,027 |
| An associate | 23 | **5,129** | – |
| PROFIT BEFORE TAX | 10 | **183,143** | 9,510 |
| Income tax | 14 | **(30,226)** | (676) |
| PROFIT FOR THE YEAR | | **152,917** | 8,834 |
| OTHER COMPREHENSIVE INCOME | | | |
| Exchange differences on translation of foreign operations | | **21,353** | 435 |
| Surplus on revaluation of property, plant and equipment | 18 | **7,428** | 9,102 |
| Fair value changes in available-for-sale investments | 24 | **–** | 11 |
| Deferred tax | 31 | **(97)** | (1,493) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | **28,684** | 8,055 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **181,601** | 16,889 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| Profit attributable to: | | | |
| Owners of the Company | 15 | **132,840** | 8,554 |
| Non-controlling interests | | **20,077** | 280 |
| | | **152,917** | 8,834 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **158,627** | 16,609 |
| Non-controlling interests | | **22,974** | 280 |
| | | **181,601** | 16,889 |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | 17 | | |
| – Basic | | **US cents 1.200** | US cent 0.296 |
| – Diluted | | **US cent 0.777** | N/A |

Details of the final dividend proposed for the year are disclosed in note 16 to the financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 18 | **265,095** | 56,582 |
| Investment properties | 19 | **7,895** | 5,336 |
| Land lease prepayments | 20 | **18,899** | 1,565 |
| Investments in jointly-controlled entities | 22 | **109,280** | 82,531 |
| Investment in an associate | 23 | **37,094** | – |
| Due from related companies | 27 | **139,372** | – |
| Deferred tax assets | 31 | **929** | – |
| Available-for-sale investments | 24 | **964** | 262 |
| Total non-current assets | | **579,528** | 146,276 |
| CURRENT ASSETS | | | |
| Inventories | 25 | **238,594** | 8,514 |
| Accounts receivable, other receivables and deposits | 26 | **98,280** | 9,912 |
| Bills receivable | | **3,307** | 166 |
| Income tax recoverable | | **–** | 152 |
| Due from non-controlling shareholders | 27 | **885** | 422 |
| Due from related companies | 27 | **1,951** | 995 |
| Pledged deposits | 28 | **25,921** | – |
| Cash and cash equivalents | 28 | **138,068** | 6,636 |
| Total current assets | | **507,006** | 26,797 |
| CURRENT LIABILITIES | | | |
| Accounts payable, other payables and accrued expenses | 29 | **239,817** | 20,171 |
| Income tax payable | | **13,925** | 2,524 |
| Provisions for staff bonuses and welfare benefits | | **6,365** | 630 |
| Due to non-controlling shareholders | 27 | **4,531** | 527 |
| Due to related companies | 27 | **5,370** | 2,020 |
| Interest-bearing bank borrowings | 30 | **227,573** | 9,969 |
| Total current liabilities | | **497,581** | 35,841 |
| NET CURRENT ASSETS/(LIABILITIES) | | **9,425** | (9,044) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **588,953** | 137,232 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 30 | **12,375** | – |
| Deferred tax liabilities | 31 | **3,550** | 3,453 |
| Other non-current liabilities | 32 | **14,869** | – |
| Total non-current liabilities | | **30,794** | 3,453 |
| Net assets | | **558,159** | 133,779 |
| EQUITY | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | 33 | **161,238** | 28,898 |
| Share premium account | 33 | **868,694** | – |
| Reserves | 34(a) | **(566,821)** | 87,341 |
| Proposed final dividend | 16 | **33,074** | 7,843 |
| | | **496,185** | 124,082 |
| **Non-controlling interests** | | **61,974** | 9,697 |
| Total equity | | **558,159** | 133,779 |

**Robert Ping-Hsien Ho**
*Director*

**Thanakorn Seriburi**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

| | Note | Issued capital | Share premium account | Share option reserve | Deferred payable shares | Other reserve | Asset revaluation reserve | Available-for-sale investment revaluation reserve | Capital reserve | Reserve fund | Expansion fund | Exchange equalisation reserve | Retained profits/ (accumulated losses) | Proposed final dividend | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | | | | | | | | | |
| | *Note* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| | | | | | *(note 34 (a)(iii))* | *(note 34 (a)(iv))* | | | *(note 34 (a)(ii))* | *(note 34 (a)(v))* | *(note 34 (a)(v))* | | | | | | |
| At 1 January 2009 | | 28,898 | 73,897 | 8,470 | – | – | 10,815 | 174 | 43,378 | 4,056 | 385 | 13,917 | (76,517) | – | 107,473 | 9,343 | 116,816 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | – | – | 8,554 | – | 8,554 | 280 | 8,834 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | – | – | – | 435 | – | – | 435 | – | 435 |
| Surplus on revaluation of property, plant and equipment | | – | – | – | – | – | 9,102 | – | – | – | – | – | – | – | 9,102 | – | 9,102 |
| Fair value changes in available-for-sale investments | | – | – | – | – | – | – | 11 | – | – | – | – | – | – | 11 | – | 11 |
| Deferred tax | | – | – | – | – | – | (1,493) | – | – | – | – | – | – | – | (1,493) | – | (1,493) |
| Total comprehensive income for the year | | – | – | – | – | – | 7,609 | 11 | – | – | – | 435 | 8,554 | – | 16,609 | 280 | 16,889 |
| Proposed final 2009 dividend | 16 | – | – | – | – | – | – | – | – | – | – | – | (7,843) | 7,843 | – | – | – |
| Share of reserves by non-controlling shareholders | | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 74 | 74 |
| Transfer in/(out) | | – | (73,897) | – | – | – | – | – | (43,378) | 765 | – | – | 116,510 | – | – | – | – |
| At 31 December 2009 | | 28,898 | – | 8,470* | – | – | 18,424* | 185* | –* | 4,821* | 385* | 14,352* | 40,704* | 7,843 | 124,082 | 9,697 | 133,779 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

| | | Attributable to owners of the Company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital US$'000 | Share premium account US$'000 | Share option reserve US$'000 | Deferred payable shares US$'000 (note 34 (a)(iii)) | Other reserve US$'000 (note 34 (a)(iv)) | Asset revaluation reserve US$'000 | Available-for-sale investment revaluation reserve US$'000 | Capital reserve US$'000 (note 34 (a)(ii)) | Reserve fund US$'000 (note 34 (a)(v)) | Expansion fund US$'000 (note 34 (a)(v)) | Exchange equalisation reserve US$'000 | Retained profits US$'000 | Proposed final dividend US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
| At 1 January 2010 | | 28,898 | – | 8,470 | – | – | 18,424 | 185 | – | 4,821 | 385 | 14,352 | 40,704 | 7,843 | 124,082 | 9,697 | 133,779 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | – | – | 132,840 | – | 132,840 | 20,077 | 152,917 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | – | – | – | 18,456 | – | – | 18,456 | 2,897 | 21,353 |
| Surplus on revaluation of property, plant and equipment | | – | – | – | – | – | 7,428 | – | – | – | – | – | – | – | 7,428 | – | 7,428 |
| Deferred tax | | – | – | – | – | – | (97) | – | – | – | – | – | – | – | (97) | – | (97) |
| Total comprehensive income for the year | | – | – | – | – | – | 7,331 | – | – | – | – | 18,456 | 132,840 | – | 158,627 | 22,974 | 181,601 |
| Acquisition of subsidiaries | 35 | 93,456 | 613,456 | – | 543,780 | (1,178,453) | 1,132 | – | 4,673 | 27,489 | 10,481 | 27,192 | 78,294 | – | 221,500 | 39,261 | 260,761 |
| Dividend paid to non-controlling shareholders | | – | – | – | – | – | – | – | – | – | – | – | – | – | – | (9,958) | (9,958) |
| Issue of shares | 33 | 38,884 | 255,238 | – | (294,122) | – | – | – | – | – | – | – | – | – | – | – | – |
| Final 2009 dividend declared | | – | – | – | – | – | – | – | – | – | – | – | (181) | (7,843) | (8,024) | – | (8,024) |
| Proposed final 2010 dividend | 16 | – | – | – | – | – | – | – | – | – | – | – | (33,074) | 33,074 | – | – | – |
| Transfer in/(out) | | – | – | – | – | – | – | – | – | 3,805 | 3,168 | – | (6,973) | – | – | – | – |
| At 31 December 2010 | | 161,238 | 868,694 | 8,470* | 249,658* | (1,178,453)* | 26,887* | 185* | 4,673* | 36,115* | 14,034* | 60,000* | 211,610* | 33,074 | 496,185 | 61,974 | 558,159 |

* These reserve accounts comprise the consolidated reserves of a deficit of US$566,821,000 (2009: surplus of US$87,341,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **183,143** | 9,510 |
| Adjustments for: | | | |
| Bank and other interest income | 8 | **(7,405)** | (567) |
| Changes in fair value of investment properties | 8 | **(2,057)** | (331) |
| Finance costs | 9 | **14,531** | 917 |
| Depreciation of items of property, plant and equipment | 10 | **19,839** | 4,070 |
| Amortisation of land lease prepayments | 10 | **524** | 43 |
| Loss on disposal of items of property, plant and equipment | 10 | **195** | 118 |
| Write-back of impairment of accounts receivable | 10 | **–** | (7) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | 22 | **(22,485)** | (17,027) |
| An associate | 23 | **(5,129)** | – |
| | | **181,156** | (3,274) |
| Increase in land lease prepayments | | **(1,923)** | – |
| Decrease/(increase) in inventories | | **(43,814)** | 10,075 |
| Decrease/(increase) in accounts receivable, other receivables and deposits | | **(7,360)** | 1,093 |
| Increase in bills receivable | | **(1,076)** | (166) |
| Increase in amounts due from non-controlling shareholders | | **(437)** | (422) |
| Decrease in amounts due from related companies | | **27,125** | 155 |
| Increase/(decrease) in accounts payable, other payables and accrued expenses | | **47,258** | (2,606) |
| Increase/(decrease) in provisions for staff bonuses and welfare benefits | | **(762)** | 15 |
| Increase/(decrease) in amounts due to non-controlling shareholders | | **791** | (123) |
| Decrease in amounts due to related companies | | **(48,091)** | (726) |
| Increase in non-current liabilities | | **14,645** | – |
| Cash generated from operations | | **167,512** | 4,021 |
| Interest paid | | **(14,531)** | (917) |
| Mainland China income tax paid | | **(20,885)** | (1) |
| Dividend paid | | **(8,024)** | – |
| Net cash flows from operating activities | | **124,072** | 3,103 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| Net cash flows from operating activities | | **124,072** | 3,103 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | 18 | **(31,992)** | (2,026) |
| Acquisition of subsidiaries | 35 | **79,060** | – |
| Increase in interests in jointly-controlled entities | | **–** | (31) |
| Dividend received from jointly-controlled entities | | **14,125** | – |
| Proceeds from disposal of items of property, plant and equipment | | **4,856** | 764 |
| Proceeds from disposal of investment properties | | **297** | – |
| Repayment of amounts due from related companies | | **154,949** | – |
| Interest received | | **2,306** | 567 |
| Net cash flows from/(used in) investing activities | | **223,601** | (726) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank borrowings | | **400,590** | 18,800 |
| Repayment of bank borrowings | | **(585,940)** | (27,179) |
| Increase in pledged deposits | | **(24,643)** | – |
| Decrease in non-controlling interests | | **–** | 74 |
| Dividends paid to non-controlling shareholders | | **(9,958)** | – |
| Net cash flows used in financing activities | | **(219,951)** | (8,305) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **127,722** | (5,928) |
| Effect of exchange rate changes, net | | **3,710** | 84 |
| Cash and cash equivalents at beginning of year | | **6,636** | 12,480 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **138,068** | 6,636 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 28 | **122,939** | 6,636 |
| Time deposits | 28 | **41,050** | – |
| Less: Pledged deposits | 28 | **(25,921)** | – |
| Cash and cash equivalents as stated in the statement of financial position | | **138,068** | 6,636 |

# STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 18 | 111 | 71 |
| Investments in subsidiaries | 21 | 1,274,808 | 24,117 |
| Total non-current assets | | 1,274,919 | 24,188 |
| CURRENT ASSETS | | | |
| Due from subsidiaries | 21 | 69,261 | 39,828 |
| Other receivables and deposits | 26 | 424 | 427 |
| Due from related companies | 27 | 567 | 546 |
| Cash and cash equivalents | 28 | 2,438 | 171 |
| Total current assets | | 72,690 | 40,972 |
| CURRENT LIABILITIES | | | |
| Due to subsidiaries | 21 | 12,770 | – |
| Other payables and accrued expenses | 29 | 2,071 | 2,717 |
| Interest-bearing bank borrowings | 30 | 2,564 | – |
| Total current liabilities | | 17,405 | 2,717 |
| NET CURRENT ASSETS | | 55,285 | 38,255 |
| Net assets | | 1,330,204 | 62,443 |
| EQUITY | | | |
| Issued capital | 33 | 161,238 | 28,898 |
| Share premium account | 33 | 868,694 | – |
| Reserves | 34(b) | 267,198 | 25,702 |
| Proposed final dividend | 16 | 33,074 | 7,843 |
| Total equity | | 1,330,204 | 62,443 |

**Robert Ping-Hsien Ho**
*Director*

**Thanakorn Seriburi**
*Director*

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 1. CORPORATE INFORMATION

The consolidated financial statements of C.P. Pokphand Co. Ltd. (the "Company") for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 25 March 2011.

The Company is a limited liability company 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 Company and its subsidiaries (together, the "Group"), jointly-controlled entities and an associate were involved in the following activities:

- manufacture and sale of feed products
- manufacture and sale of chlortetracycline products
- manufacture and sale of motorcycles and accessories for automobiles
- property and investment holding

## 2. BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention, except for office premises, investment properties and available-for-sale investments, which have been measured at fair value. These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand ("US$'000") except when otherwise indicated.

### Basis of consolidation

#### Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

## 2. BASIS OF PREPARATION (CONTINUED)

### Basis of consolidation (continued)

#### Basis of consolidation from 1 January 2010 (continued)

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary; (ii) the carrying amount of any non-controlling interest, and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received; (ii) the fair value of any investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

#### Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholder.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

## 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements:

| | |
|---|---|
| IFRS 1 (Revised) | *First-time Adoption of International Financial Reporting Standards* |
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters* |
| IFRS 2 Amendments | Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* |
| IFRS 3 (Revised) | *Business Combinations* |
| IAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| IAS 39 Amendment | Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* |
| IFRIC-Int 17 | *Distributions of Non-cash Assets to Owners* |
| IFRS 5 Amendments included in *Improvements to IFRSs* issued in May 2008 | Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* |
| *Improvements to IFRSs 2009* | Amendments to a number of IFRSs issued in April 2009 |

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

## 4. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements:

| | |
|---|---|
| IFRS 1 Amendment | Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2] |
| IFRS 1 Amendments | Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4] |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4] |
| IFRS 9 | *Financial Instruments*[6] |
| IAS 12 Amendments | Amendments to *IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets*[5] |
| IAS 24 (Revised) | *Related Party Disclosures*[3] |
| IAS 32 Amendment | Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1] |
| IFRIC-Int 14 Amendments | Amendments to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement*[3] |
| IFRIC-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments*[2] |

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of the operations and financial position.

# NOTES TO FINANCIAL STATEMENTS

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## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity 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 or loss to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates 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 the joint venture's operations and any distributions 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 agreement.

A joint venture is treated as:

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

(b) a jointly-controlled entity, if the Group does not have unilateral control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that 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 investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit or loss and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of the post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

### Associates

An associate is an entity, 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 investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations (other than business combinations of entities under common control) and goodwill

#### Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations (other than business combinations of entities under common control) and goodwill (continued)

#### Business combinations from 1 January 2010 (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) 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 based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### Prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

- When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

- Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

# NOTES TO FINANCIAL STATEMENTS

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## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations of entities under common control

Business combinations of entities under common control are accounted for using the pooling-of-interest method. Under the pooling-of-interest method, the assets and liabilities of the combining entities are reflected at their carrying values at the date of acquisition. There is no goodwill or excess over the cost of combination as a result of the combination. The Company's policy is not to restate the financial information for periods prior to the completion of the combination under common control.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

### Property, plant and equipment and depreciation

#### (A) Office premises

Office premises are stated at their open market values on the basis of annual valuations performed at each financial year end. Changes in the values of such premises are dealt with as movements in the 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 profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged.

Upon disposal of the office premises, the relevant portion of the 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 of 25 years to 50 years.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment and depreciation (continued)

#### (b) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of other property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of other property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation of other property, plant and equipment in Hong Kong is calculated on the straight-line basis to write off the cost of each item over its estimated useful life.

Depreciation of other property, plant and equipment in Mainland China is calculated on the straight-line basis based on the estimated economic useful life of each category of assets and on an estimated residual value. The residual value of an item of other property, plant and equipment represents the estimated recoverable amount upon disposal less any estimated costs of disposal. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Industrial buildings in Mainland China | 2% to 4½% |
| Plant and machinery | 6% to 15% |
| Furniture, fixtures and equipment | 10% to 33⅓% |
| Motor vehicles and transport facilities | 9% to 33⅓% |

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of other property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment and depreciation (continued)

#### (c) Construction in progress

Construction in progress represents the construction of silos, factories and warehouses, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases

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 profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Land lease prepayments represent land use rights paid to governmental authorities in the People's Republic of China (the "PRC"). Land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the respective periods of the rights.

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables and available-for-sale investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, accounts receivable, bills receivable, other receivables and deposits, available-for-sale investments and amounts due from jointly-controlled entities, non-controlling shareholders and related companies.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (continued)

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in profit or loss in other operating expenses.

#### Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in profit or loss and removed from the available-for-sale investment valuation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

# NOTES TO FINANCIAL STATEMENTS

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## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (continued)

#### Available-for-sale financial investments (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in profit or loss.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (continued)

#### Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement, "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include accounts payable and other payables, amounts due to related companies and non-controlling shareholders and interest-bearing bank borrowings.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

#### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

#### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

#### Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

#### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Inventories

Inventories are stated 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.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that 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 and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### 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 end of the reporting period 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 profit or loss.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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, an associate and joint ventures, 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.

# NOTES TO FINANCIAL STATEMENTS

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## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 credits 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, an associate and 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.

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 by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is credited to a non-current liabilities account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

### Share-based payment transactions

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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes pricing model, further details of which are given in note 33 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Other employee benefits

#### Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for 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 profit or loss 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 Mainland China is required to make specific contributions to the state-controlled retirement plan at rates ranging from 14% to 24% of the total salaries of the employees in Mainland China. 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.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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. The 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 expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

These financial statements are presented in United States dollars as there is trading of the Company's shares by way of American Depository Receipts in the United States. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period, and all differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the United States dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their profit or loss are translated into United States dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries, which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

## 6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### Depreciation and amortisation

The Group depreciates the assets on the straight-line basis over their estimated useful lives, and after taking into account of their estimated residual values, at rates ranging from 2% to 33 1/3% per annum, commencing from the date the property, plant and equipment are placed into productive use. The estimated useful lives and dates that the Group places the property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

## 6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (continued)

#### Impairment of accounts receivable

The policy for provision for impairment loss of the Group is based on the evaluation of collectability and the ageing analysis of the accounts receivable and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

#### Allowances for inventories

The management of Group reviews the ageing analysis of its inventories at each reporting date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product by product basis at each reporting date and makes allowances for obsolete items.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in note 42 to the financial statements.

## 6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty (continued)

#### Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount when events or changes in circumstances indicate the carrying amounts may not be recoverable. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. The recoverable amounts are determined based on fair value less costs to sell which are based on the best information available to reflect the amount obtainable at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Group's management estimates future cash flows from the eash-generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

#### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2010 was US$929,000 (2009: Nil), further details of which are disclosed in note 31 to the financial statements.

## 7. REVENUE

Revenue, which is also the Group's turnover, represents: (i) the aggregate of the invoiced value of goods sold, net of value-added tax, consumption tax and government surcharges, and after allowances for goods returned and trade discounts, and (ii) rental income on investment properties, and after eliminations of intra-group transactions.

An analysis of revenue is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Sales to/income from external customers: | | |
| Feed operations | **1,839,296** | – |
| Biochemical operations | **111,225** | 73,958 |
| Investment and property holding | **272** | 287 |
| | **1,950,793** | 74,245 |

The above analysis does not include the revenue of the Group's jointly-controlled entities and an associate, which is summarised in the combined results of jointly-controlled entities and an associate as set out in notes 22 and 23 to the financial statements, respectively.

## 8. OTHER INCOME

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Bank interest income | **1,387** | 567 |
| Other interest income | **6,018** | – |
| Rental income on land, buildings and plant and machinery | **2,383** | – |
| Waiver of an amount due to a related company | **1,309** | – |
| Changes in fair value of investment properties *(note 19)* | **2,057** | 331 |
| Government grants | **2,607** | 334 |
| Foreign exchange gain, net | **2,772** | – |
| Others | **2,261** | – |
| | **20,794** | 1,232 |

The government grants represented tax refunds and government subsidies for construction and modification of plants and energy saving improvement projects. There are no unfulfilled conditions or contingencies relating to these grants.

# NOTES TO FINANCIAL STATEMENTS

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## 9. FINANCE COSTS

An analysis of finance costs is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Interest expense on bank loans wholly repayable within five years | **14,531** | 917 |

## 10. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | | Group | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Notes* | ***US$'000*** | *US$'000* |
| Auditors' remuneration | | **1,138** | 552 |
| Acquisition-related costs | 35 | **–** | 3,103 |
| Depreciation of items of property, plant and equipment | 18 | **19,839** | 4,070 |
| Amortisation of land lease prepayments | 20 | **524** | 43 |
| Impairment/(write-back of impairment) of accounts receivable | 26 | **114** | (7) |
| Loss on disposal of items of property, plant and equipment, net | | **195** | 118 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | **1,380** | 147 |
| Plant and machinery | | **379** | 44 |
| | | **1,759** | 191 |
| Employee benefit expense (including directors' remuneration – *see note 11*): | | | |
| Wages and salaries | | **94,051** | 10,411 |
| Pension scheme contributions | | **8,197** | 232 |
| | | **102,248** | 10,643 |
| Rental income on investment properties | | **(349)** | (287) |

## 11. DIRECTORS' REMUNERATION

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Fees | **926** | 93 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **2,291** | 883 |
| Pension scheme contributions | **1** | 1 |
| | **2,292** | 884 |
| | **3,218** | 977 |

No share options were granted to the directors in respect of their services to the Group during the year (2009: Nil).

### (A) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Mr. Sombat Deo-isres | **31** | 31 |
| Mr. Ma Chiu Cheung, Andrew | **31** | 31 |
| Mr. Sakda Thanitcul | **31** | 31 |
| | **93** | 93 |

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

## 11. DIRECTORS' REMUNERATION (CONTINUED)

### (b) Executive and non-executive directors

| | Fees US$'000 | Salaries, allowances and benefits in kind US$'000 | Pension scheme contributions US$'000 | Total remuneration US$'000 |
|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | |
| Executive directors: | | | | |
| Mr. Sumet Jiaravanon* | – | – | – | – |
| Mr. Dhanin Chearavanont | 833 | – | – | 833 |
| Mr. Thanakorn Seriburi | – | 543 | – | 543 |
| Mr. Robert Ping-Hsien Ho | – | – | – | – |
| Mr. Soopakij Chearavanont | – | – | – | – |
| Mr. Nopadol Chiaravanont* | – | – | – | – |
| Mr. Benjamin Jiaravanon* | – | – | – | – |
| Mr. Narong Chearavanont* | – | – | – | – |
| Mr. Chatchaval Jiaravanon* | – | – | – | – |
| Mr. Anan Athigapanich | – | 588 | – | 588 |
| Mr. Damrongdej Chalongphuntarat | – | 577 | – | 577 |
| Mr. Bai Shanlin | – | 446 | – | 446 |
| Mr. Suphachai Chearavanont | – | – | – | – |
| Mr. Pang Siu Chik* | – | 137 | 1 | 138 |
| | 833 | 2,291 | 1 | 3,125 |
| Non-executive directors: | | | | |
| Mr. Meth Jiaravanont^ | – | – | – | – |
| Mr. Patrick Thomas Siewert | – | – | – | – |
| Mr. Poon Yee Man Alwin (as alternate director to Mr. Patrick Thomas Siewert) | – | – | – | – |
| | – | – | – | – |
| | 833 | 2,291 | 1 | 3,125 |

## 11. DIRECTORS' REMUNERATION (CONTINUED)

### (b) Executive and non-executive directors (continued)

| | Fees | Salaries, allowances and benefits in kind | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Year ended 31 December 2009 | | | | |
| Executive directors: | | | | |
| Mr. Sumet Jiaravanon | – | – | – | – |
| Mr. Dhanin Chearavanont | – | – | – | – |
| Mr. Thanakorn Seriburi | – | 543 | – | 543 |
| Mr. Meth Jiaravanont | – | – | – | – |
| Mr. Robert Ping-Hsien Ho | – | – | – | – |
| Mr. Soopakij Chearavanont | – | – | – | – |
| Mr. Nopadol Chiaravanont | – | – | – | – |
| Mr. Benjamin Jiaravanon | – | – | – | – |
| Mr. Narong Chearavanont | – | – | – | – |
| Mr. Chatchaval Jiaravanon | – | – | – | – |
| Mr. Suphachai Chearavanont | – | – | – | – |
| Mr. Pang Siu Chik | – | 340 | 1 | 341 |
| | – | 883 | 1 | 884 |

* Resigned during the year ended 31 December 2010.

^ Re-designated during the year ended 31 December 2010.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

# NOTES TO FINANCIAL STATEMENTS

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## 12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2009: two) directors, details of whose remuneration are set out in note 11 above. The remuneration of the remaining one (2009: three) non-director, highest paid employee for the year was analysed as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Salaries, allowances and benefits in kind | **475** | 1,768 |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| US$128,000 to US$192,000 (equivalent to HK$1,000,001 to HK$1,500,000) | – | 1 |
| US$256,000 to US$321,000 (equivalent to HK$2,000,001 to HK$2,500,000) | – | 1 |
| US$385,000 to US$449,000 (equivalent to HK$3,000,001 to HK$3,500,000) | – | 1 |
| US$449,001 to US$512,000 (equivalent to HK$3,500,001 to HK$4,000,000) | **1** | – |
| | **1** | 3 |

## 13. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) The feedmill business segment represents the manufacturing and sale of feed products;

(b) The biochemical segment represents the manufacturing and sale of chlortetracycline products;

(c) The industrial business segment represents the manufacturing and sale of motorcycles and automobile accessories and trading of machinery through jointly-controlled entities; and

(d) The investment and property holding segment represents leasing offices owned by the Group and acts as the investment holding of the group companies.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude income tax recoverable, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, income tax and other taxes payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# NOTES TO FINANCIAL STATEMENTS

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## 13. OPERATING SEGMENT INFORMATION (continued)

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2010 and 2009.

Group

**Year ended 31 December 2010**

| | Manufacturing and sale of feed products *US$'000* | Manufacturing and sale of chlortetracycline products *US$'000* | Manufacturing and sale of motorcycles and automobile accessories and trading of machinery* *US$'000* | Investment and property holding *US$'000* | Total *US$'000* |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| Sales to external customers | 1,839,296 | 111,225 | – | 272 | 1,950,793 |
| Intersegment sales | – | 1,945 | – | 17 | 1,962 |
| | 1,839,296 | 113,170 | – | 289 | 1,952,755 |
| **Reconciliation:** | | | | | |
| Elimination of intersegment sales | | | | | (1,962) |
| | | | | | 1,950,793 |
| **Segment results** | 134,220 | 25,023 | (4,077) | (5,814) | 149,352 |
| **Reconciliation:** | | | | | |
| Elimination of segment results | | | | | (86) |
| Other income | 16,932 | (504) | 1,651 | 1,328 | 19,407 |
| Bank interest income | | | | | 1,387 |
| Finance costs | | | | | (14,531) |
| Share of profits and losses of: | | | | | |
| Jointly-controlled entities | 5,319 | – | 17,166 | – | 22,485 |
| An associate | 5,129 | – | – | – | 5,129 |
| Profit before tax | | | | | 183,143 |

## 13. OPERATING SEGMENT INFORMATION (continued)

### (A) Business segments (continued)

Group (continued)

**Year ended 31 December 2010 (continued)**

| | Manufacturing and sale of feed products US$'000 | Manufacturing and sale of chlortetracycline products US$'000 | Manufacturing and sale of motorcycles and automobile accessories and trading of machinery* US$'000 | Investment and property holding US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Segment assets** | 742,809 | 61,025 | 97,691 | 99,130 | 1,000,655 |
| **Reconciliation:** | | | | | |
| Elimination of intersegment receivable | | | | | (79,039) |
| Unallocated assets | | | | | 164,918 |
| Total assets | | | | | 1,086,534 |
| **Segment liabilities** | 246,957 | 35,430 | 52,695 | 14,911 | 349,993 |
| **Reconciliation:** | | | | | |
| Elimination of intersegment payables | | | | | (79,039) |
| Unallocated liabilities | | | | | 257,421 |
| Total liabilities | | | | | 528,375 |
| **Other segment information** | | | | | |
| Depreciation and amortisation | 16,582 | 3,650 | 68 | 63 | 20,363 |
| Investments in jointly-controlled entities | 12,823 | – | 96,457 | – | 109,280 |
| Investment in an associate | 37,094 | – | – | – | 37,094 |
| Capital expenditure** | 29,018 | 4,887 | 10 | – | 33,915 |

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

** Capital expenditure consists of additions to property, plant and equipment and land lease prepayments.

# NOTES TO FINANCIAL STATEMENTS

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## 13. OPERATING SEGMENT INFORMATION (CONTINUED)

### (A) BUSINESS SEGMENTS (CONTINUED)

Group (continued)

**Year ended 31 December 2009**

| | Manufacturing and sale of feed products US$'000 | Manufacturing and sale of chlortetracycline products US$'000 | Manufacturing and sale of motorcycles and automobile accessories and trading of machinery* US$'000 | Investment and property holding US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| Sales to external customers | – | 73,958 | – | 287 | 74,245 |
| **Segment results** | – | 3,060 | (3,828) | (5,650) | (6,418) |
| **Reconciliation:** | | | | | |
| Elimination of segment results | | | | | (1,414) |
| Other income | – | 334 | – | 331 | 665 |
| Bank interest income | | | | | 567 |
| Finance costs | | | | | (917) |
| Share of profits and losses of jointly-controlled entities | – | – | 17,027 | – | 17,027 |
| Profit before tax | | | | | 9,510 |

## 13. OPERATING SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group (continued)

**Year ended 31 December 2009 (continued)**

| | Manufacturing and sale of feed products US$'000 | Manufacturing and sale of chlortetracycline products US$'000 | Manufacturing and sale of motorcycles and automobile accessories and trading of machinery* US$'000 | Investment and property holding US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Segment assets** | – | 53,473 | 83,439 | 29,373 | 166,285 |
| **Reconciliation:** | | | | | |
| Unallocated assets | | | | | 6,788 |
| Total assets | | | | | 173,073 |
| **Segment liabilities** | – | 19,001 | 1,509 | 3,662 | 24,172 |
| **Reconciliation:** | | | | | |
| Elimination of intersegment payables | | | | | (824) |
| Unallocated liabilities | | | | | 15,946 |
| Total liabilities | | | | | 39,294 |
| **Other segment information** | | | | | |
| Depreciation and amortisation | – | 3,881 | – | 232 | 4,113 |
| Investments in jointly-controlled entities | – | – | 82,531 | – | 82,531 |
| Capital expenditure** | – | 1,798 | – | 228 | 2,026 |

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

** Capital expenditure consists of additions to property, plant and equipment and land lease prepayments.

## 13. OPERATING SEGMENT INFORMATION (CONTINUED)

### (B) GEOGRAPHICAL INFORMATION

(i) Revenue from external customers

| | 2010 | 2009 |
|---|---|---|
| | **US$'000** | *US$'000* |
| Mainland China | **1,865,591** | 25,419 |
| United States of America | **24,162** | 11,869 |
| Other countries | **61,040** | 36,957 |
| | **1,950,793** | 74,245 |

The revenue information shown above is based on the location of the customers.

(ii) All significant operating assets of the Group are located in Mainland China. Accordingly, no geographical information analysis of segment assets is presented.

### INFORMATION ABOUT A MAJOR CUSTOMER

During the year ended 31 December 2010, none of the Group's revenue was derived from transactions with individual external customers amounting to 10 per cent or more of the Group's revenue.

During the year ended 31 December 2009, revenue of US$10,222,000 was derived from sales by the chlortetracycline products segment to a single customer.

## 14. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil).

The subsidiaries and jointly-controlled entities operating in the PRC are subject to income tax at the rate of 25% (2009: 25%) on their taxable income according to the PRC Enterprises Income Tax Law. In accordance with the relevant tax rules and regulations in the PRC, certain of the Group's PRC subsidiaries, jointly-controlled entities and an associate enjoy income tax exemptions and reductions.

## 14. INCOME TAX (CONTINUED)

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Current – Mainland China | | |
| Charge for the year | **29,876** | 165 |
| Underprovision in prior year | **350** | – |
| Deferred tax *(note 31)* | **–** | 511 |
| Total tax charge for the year | **30,226** | 676 |

A reconciliation of the income tax expense applicable to profit before tax at the statutory rates for the provinces/districts in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable tax rates, are as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | ***US$'000*** | **%** | *US$'000* | % |
| Profit before tax | **183,143** | | 9,510 | |
| Expected tax charge at the domestic tax rates applicable in the specific provinces/districts, net | **35,171** | **19.2** | 1,664 | 17.5 |
| Effect of withholding tax on the distributable profit of the Group's subsidiaries and jointly-controlled entities in Mainland China | **–** | **–** | 511 | 5.4 |
| Adjustment in respect of current tax of previous period | **350** | **0.2** | – | – |
| Profits and losses attributable to jointly-controlled entities and an associate | **(5,537)** | **(3.0)** | (2,810) | (29.6) |
| Income not subject to tax | **(6,680)** | **(3.6)** | (447) | (4.7) |
| Expenses not deductible for tax | **5,965** | **3.2** | 1,917 | 20.2 |
| Tax losses not recognised | **957** | **0.5** | – | – |
| Tax losses utilised from previous periods | **–** | **–** | (159) | (1.7) |
| Tax charge at the Group's effective rate | **30,226** | **16.5** | 676 | 7.1 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 14. INCOME TAX (CONTINUED)

The share of tax attributable to jointly-controlled entities and an associate amounting to US$6,252,000 (2009: US$3,997,000) and US$1,943,000 (2009: Nil), respectively, is included in "Share of profits and losses of jointly-controlled entities and an associate" on the face of the consolidated statement of comprehensive income.

## 15. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of US$25,093,000 (2009: US$62,934,000) which has been dealt with in the financial statements of the Company (note 34(B)).

## 16. PROPOSED FINAL DIVIDEND

The Board has declared a final dividend for the year ended 31 December 2010 of HK$0.016 (approximately equivalent to US cent 0.205) (2009: HK$0.005 (approximately equivalent to US cent 0.064)) per share to the ordinary share owners and convertible preference share owners of the Company. The final dividend declared for the year ended 31 December 2009 was based on the 5,614,489,364 ordinary shares and 6,620,863,542 convertible preference shares of the Company in issue after the Acquisition completed on 28 February 2010, further details of which are disclosed in note 35 to the financial statements. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

| | **2010** | 2009 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Proposed final – HK$0.016 (approximately equivalent to US cent 0.205) (2009: HK$0.005 (approximately equivalent to US cent 0.064)) per share | **33,074** | 7,843* |

* The final dividend for the year ended 31 December 2009 paid during the year ended 31 December 2010 amounted to US$8,024,000, which is different from the amount proposed as a result of the issue of additional shares of the Company's shares during the period between 8 March 2010 (the date of approval of the consolidated financial statements of the Company for the year ended 31 December 2009) and 14 May 2010 (the date of closure of the register of members).

## 17. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to equity owners of the Company, and the weighted average number of ordinary shares and convertible preference shares of 11,073,289,697 (2009: 2,889,730,786) in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit for the year attributable to the equity owners of the Company. The weighted average number of ordinary shares and convertible preference shares used in the calculation is the weighted average number of ordinary shares and convertible preference shares in issue during the year, as used in the basic earnings per share calculation, adjusted to reflect the effect of the issuance of all deferred payable shares (further defined in note 35 to the financial statements) and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of the dilutive share options of the Company.

No adjustment had been made to the basic earnings per share for the year ended 31 December 2009 as the Group had no potentially dilutive ordinary shares in issue during that year.

The calculation of basic and diluted earnings per share is based on the following:

| | **2010** | 2009 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **Earnings** | | |
| Profit attributable to equity owners of the Company, used in the basic earnings per share calculation | **132,840** | 8,554 |

| | **Number of shares** | |
|---|---|---|
| | **2010** | 2009 |
| **Shares** | | |
| Weighted average number of ordinary shares and convertible preference shares for the purpose of basic earnings per share calculation | **11,073,289,697** | 2,889,730,786 |
| Effect of dilution – weighted average number of ordinary shares and convertible preference shares from: | | |
| Deferred payable shares | **5,723,593,415** | |
| Share options | **292,948,877** | |
| Weighted average number of ordinary shares and convertible preference shares, used in the diluted earnings per share calculation | **17,089,831,989** | |

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 18. PROPERTY, PLANT AND EQUIPMENT

| Group | Office premises in Hong Kong US$'000 | Office premises in Mainland China US$'000 | Industrial buildings in Mainland China US$'000 | Plant and machinery US$'000 | Furniture, fixtures and equipment US$'000 | Motor vehicles and transport facilities US$'000 | Construction in progress US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|
| 31 December 2010 | | | | | | | | |
| At 31 December 2009 and 1 January 2010: | | | | | | | | |
| Cost or valuation | 22,258 | 1,177 | 14,255 | 55,777 | 4,697 | 1,623 | 332 | 100,119 |
| Accumulated depreciation and impairment losses | – | – | (5,870) | (32,299) | (4,054) | (1,314) | – | (43,537) |
| Net carrying amount | 22,258 | 1,177 | 8,385 | 23,478 | 643 | 309 | 332 | 56,582 |
| Net carrying amount: | | | | | | | | |
| At 1 January 2010 | 22,258 | 1,177 | 8,385 | 23,478 | 643 | 309 | 332 | 56,582 |
| Additions | – | – | 446 | 2,947 | 2,161 | 2,023 | 24,415 | 31,992 |
| Acquisition of subsidiaries (*note 35*) | – | 4,144 | 88,816 | 62,218 | 11,695 | 5,873 | 13,264 | 186,010 |
| Revaluation | 2,569 | 4,859 | – | – | – | – | – | 7,428 |
| Transfer from investment properties (*note 19*) | – | 1,843 | (788) | – | – | – | – | 1,055 |
| Disposals | – | – | (2,388) | (2,147) | (330) | (179) | – | (5,044) |
| Depreciation provided during the year (*note 10*) | – | – | (7,861) | (8,031) | (2,596) | (1,351) | – | (19,839) |
| Transfer in/(out) | – | – | 10,769 | 13,165 | 1,329 | 384 | (25,647) | – |
| Exchange realignment | – | 527 | 3,190 | 2,154 | 374 | 200 | 466 | 6,911 |
| At 31 December 2010 | 24,827 | 12,550 | 100,569 | 93,784 | 13,276 | 7,259 | 12,830 | 265,095 |
| At 31 December 2010: | | | | | | | | |
| Cost or valuation | 24,827 | 12,550 | 216,208 | 320,820 | 45,360 | 18,270 | 12,830 | 650,865 |
| Accumulated depreciation and impairment losses | – | – | (115,639) | (227,036) | (32,084) | (11,011) | – | (385,770) |
| Net carrying amount | 24,827 | 12,550 | 100,569 | 93,784 | 13,276 | 7,259 | 12,830 | 265,095 |

## 18. PROPERTY, PLANT AND EQUIPMENT (continued)

| Group | Office premises in Hong Kong US$'000 | Office premises in Mainland China US$'000 | Industrial buildings in Mainland China US$'000 | Plant and machinery US$'000 | Furniture, fixtures and equipment US$'000 | Motor vehicles and transport facilities US$'000 | Construction in progress US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2009** | | | | | | | | |
| At 1 January 2009: | | | | | | | | |
| Cost or valuation | 13,258 | 5,517 | 15,344 | 54,028 | 4,991 | 1,434 | 483 | 95,055 |
| Accumulated depreciation and impairment losses | – | – | (5,894) | (29,350) | (4,303) | (1,158) | – | (40,705) |
| Net carrying amount | 13,258 | 5,517 | 9,450 | 24,678 | 688 | 276 | 483 | 54,350 |
| Net carrying amount: | | | | | | | | |
| At 1 January 2009 | 13,258 | 5,517 | 9,450 | 24,678 | 688 | 276 | 483 | 54,350 |
| Additions | – | – | 297 | 471 | 244 | 206 | 808 | 2,026 |
| Revaluation | 9,000 | 102 | – | – | – | – | – | 9,102 |
| Transfer to investment properties *(note 19)* | – | (4,442) | – | – | – | – | – | (4,442) |
| Disposals | – | – | (761) | (61) | (55) | (5) | – | (882) |
| Depreciation provided during the year *(note 10)* | – | – | (649) | (3,050) | (198) | (173) | – | (4,070) |
| Transfer in/(out) | – | – | – | 961 | – | – | (961) | – |
| Exchange realignment | – | – | 48 | 479 | (36) | 5 | 2 | 498 |
| At 31 December 2009 | 22,258 | 1,177 | 8,385 | 23,478 | 643 | 309 | 332 | 56,582 |
| At 31 December 2009: | | | | | | | | |
| Cost or valuation | 22,258 | 1,177 | 14,255 | 55,777 | 4,697 | 1,623 | 332 | 100,119 |
| Accumulated depreciation and impairment losses | – | – | (5,870) | (32,299) | (4,054) | (1,314) | – | (43,537) |
| Net carrying amount | 22,258 | 1,177 | 8,385 | 23,478 | 643 | 309 | 332 | 56,582 |

## 18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's office premises and industrial buildings as at 31 December 2010 are analysed as follows:

| | Hong Kong | Mainland China | Total |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| Cost or valuation: | | | |
| Long term leases | 24,827 | – | 24,827 |
| Medium term leases | – | 228,758 | 228,758 |
| | 24,827 | 228,758 | 253,585 |

The Group's office premises in Hong Kong and Mainland China and industrial buildings in Mainland China as at 31 December 2010 and 2009 were revalued by Castores Magi (Hong Kong) Limited, independent professionally qualified valuers, on an open market, existing use basis.

Had the Group's office premises in Hong Kong and Mainland China and industrial buildings in Mainland China been stated at cost less accumulated depreciation, the carrying amount of the premises at the end of the reporting period would have been US$129,181,000 (2009: US$1,288,000).

At 31 December 2010, the Group's office premises in Hong Kong and certain of the Group's buildings and machines in Mainland China with an aggregate carrying amount of US$46,258,000 (2009: US$30,642,000) and one of the Group's office premises in Hong Kong with a carrying amount of US$24,827,000 (2009: US$22,154,000) were pledged as security for interest-bearing borrowings of the Group and the Company, respectively (note 30).

## 18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

| | Furniture, fixtures and equipment | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| At beginning of year: | | |
| Cost | **1,313** | 1,229 |
| Accumulated depreciation | **(1,242)** | (1,121) |
| Net carrying amount | **71** | 108 |
| Net carrying amount: | | |
| At beginning of year | **71** | 108 |
| Additions | **88** | 84 |
| Depreciation provided during the year | **(48)** | (121) |
| At end of year | **111** | 71 |
| At end of year: | | |
| Cost | **1,308** | 1,313 |
| Accumulated depreciation | **(1,197)** | (1,242) |
| Net carrying amount | **111** | 71 |

## 19. INVESTMENT PROPERTIES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Medium term leases in Mainland China, at valuation: | | |
| At beginning of year | **5,336** | 563 |
| Acquisition of subsidiaries *(note 35)* | **1,761** | – |
| Net gain from a fair value adjustment *(note 8)* | **2,057** | 331 |
| Disposal | **(304)** | – |
| Transfers from/(to) owner-occupied properties *(note 18)* | **(1,055)** | 4,442 |
| Exchange realignment | **100** | – |
| At end of year | **7,895** | 5,336 |

The investment properties in Mainland China are held under medium term leases. The properties were revalued by Castores Magi (Hong Kong) Limited, an independent professionally qualified surveyor, on a depreciated replacement cost basis, at the end of the reporting period.

Details of the investment properties as at 31 December 2010 are as follows:

| **Location** | **Use** |
|---|---|
| Flats 1401 and 1402, Block 4, Jing Hua Apartment, Jianguomenwei Main Street, Chaoyang District, Beijing | Residential units for rental |
| Unit Nos. 10C, 11B, 12A, 12C, 15A, 15D, 16A, 16D, 17A, 17D, 18B, 18D and 19B of Block No. 1 and car parking spaces Nos. A20-23, A25-29, A47, B1-B5, Fortune Garden, No.1357 Dong Fang Road, Pudong District, Shanghai | Residential units for rental |
| The Whole of Block No. 9 and 17, No. 35-2 Yin Bin Road, Aksu, Xinjiang Uygur Autonomous Region | Residential units for rental |

## 20. LAND LEASE PREPAYMENTS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| At beginning of year | **1,565** | 1,594 |
| Additions | **1,923** | – |
| Acquisition of subsidiaries *(note 35)* | **15,442** | – |
| Amortisation during the year *(note 10)* | **(524)** | (43) |
| Exchange realignment | **493** | 14 |
| At end of year | **18,899** | 1,565 |

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

At 31 December 2010, certain of the Group's land lease prepayments with an aggregate carrying amount of approximately US$13,974,000 (2009: US$550,000) were pledged as security for interest-bearing bank borrowings of the Group (note 30).

## 21. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Unlisted shares, at cost | **1,274,808** | 24,117 |

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

Particulars of the Company's subsidiaries are presented on pages 154 to 163 of the financial statements.

## 22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Unlisted investments: | | |
| Share of net assets | **105,633** | 78,966 |
| Due from jointly-controlled entities | **3,647** | 3,565 |
| | **109,280** | 82,531 |

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

Particulars of the jointly-controlled entities are presented on pages 164 to 166 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 34(a)(v) 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 these jointly-controlled entities.

## 22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

The following table illustrates the summarised financial information of the Group's share of all jointly-controlled entities involved in the feedmill business and industrial business at the end of the reporting period, accounted for by the Group using the equity method, for the years ended 31 December 2010 and 2009:

| Group | 2010 | | | 2009 |
|---|---|---|---|---|
| | **Feedmill business in Mainland China** | **Industrial business in Mainland China** | **Total** | Industrial business in Mainland China |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** | *US$'000* |
| **Share of the jointly-controlled entities' assets and liabilities** | | | | |
| Property, plant and equipment and land lease prepayments | **10,754** | **41,098** | **51,852** | 37,358 |
| Available-for-sale investments | **–** | **–** | **–** | 2,273 |
| Non-current receivables and other assets | **–** | **550** | **550** | 34 |
| Current assets | **25,023** | **299,915** | **324,938** | 122,282 |
| Current liabilities | **(17,101)** | **(249,179)** | **(266,280)** | (82,959) |
| Net current assets | **7,922** | **50,736** | **58,658** | 39,323 |
| Non-current liabilities | **(3,782)** | **(1,645)** | **(5,427)** | (22) |
| Net assets | **14,894** | **90,739** | **105,633** | 78,966 |
| **Share of the jointly-controlled entities' results** | | | | |
| Revenue | **84,757** | **369,251** | **454,008** | 251,476 |
| Profit before tax | **6,939** | **21,921** | **28,860** | 21,039 |
| Income tax | **(1,496)** | **(4,756)** | **(6,252)** | (3,998) |
| Profit for the year | **5,443** | **17,165** | **22,608** | 17,041 |
| Non-controlling interests' share of profits and losses | **–** | **–** | **–** | (14) |
| Loss on discontinued operation | **(123)** | **–** | **(123)** | – |
| Profit attributable to shareholders | **5,320** | **17,165** | **22,485** | 17,027 |

## 23. INVESTMENT IN AN ASSOCIATE

| | Group 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Unlisted investment: | | |
| Share of net assets | **37,094** | – |

The Group's associate was acquired during the year ended 31 December 2010, details of which are disclosed in note 35 to the financial statements. The Group did not hold any associates during the year ended 31 December 2009.

Particulars of the associate are presented on page 167 of the financial statements.

The operations of the Group's associate are mainly carried out by the associate's subsidiaries and a jointly-controlled entity established in the Mainland China. Details of the factors affecting the distribution of earnings from the associate are set out in note 34(a)(v) to the financial statements.

Under the terms of the joint venture agreement, the Group's associate is entitled to receive its attributable share of net assets upon liquidation of the jointly-controlled entity.

## 23. INVESTMENT IN AN ASSOCIATE (CONTINUED)

The following table illustrates the summarised financial information of the Group's share of the associate involved in the feedmill business as at 31 December 2010, accounted for by the Group using the equity method for the year ended 31 December 2010:

| | 2010<br>*US$'000* |
|---|---|
| **Share of the associate's assets and liabilities** | |
| Property, plant and equipment and land lease prepayments | 5,570 |
| Investment in a jointly-controlled entity | 3,625 |
| Non-current receivables and other assets | 174 |
| Current assets | 43,785 |
| Current liabilities | (14,540) |
| Net current assets | 29,245 |
| Non-current liabilities | (1,520) |
| Net assets | 37,094 |

| | 2010<br>*US$'000* |
|---|---|
| **Share of the associate's results** | |
| Revenue | 94,258 |
| Profit before tax | 7,145 |
| Income tax | (1,943) |
| Profit for the year | 5,202 |
| Non-controlling interests' share of profits and losses | (73) |
| Profit attributable to shareholders | 5,129 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 24. AVAILABLE-FOR-SALE INVESTMENTS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Unlisted equity investments, at fair value | **964** | 262 |

During the year, no gain (2009: gross gain of US$11,000) in respect of the Group's available-for-sale investments had been recognised in other comprehensive income.

## 25. INVENTORIES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Raw materials | **198,220** | 1,818 |
| Work in progress | **2,381** | 2,369 |
| Finished goods | **37,993** | 4,327 |
| | **238,594** | 8,514 |

## 26. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND DEPOSITS

The Group normally grants a credit period of up to 60 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, there is no significant concentration of credit risk. An aged analysis of the Group's accounts receivable, based on the invoice date, together with other receivables and deposits, as at the end of the reporting period, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Less than 60 days | **56,803** | 8,116 | **–** | – |
| 61 to 180 days | **1,347** | 192 | **–** | – |
| 181 to 360 days | **313** | 127 | **–** | – |
| Over 360 days | **340** | – | **–** | – |
| | **58,803** | 8,435 | **–** | – |
| Impairment | **(196)** | (82) | **–** | – |
| | **58,607** | 8,353 | **–** | – |
| Other receivables and deposits | **39,673** | 1,559 | **424** | 427 |
| | **98,280** | 9,912 | **424** | 427 |

The movements in the provision for impairment of accounts receivable are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| At 1 January | **82** | 89 |
| Impairment losses recognised *(note 10)* | **114** | – |
| Impairment losses written back during the year *(note 10)* | **–** | (7) |
| At 31 December | **196** | 82 |

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of US$196,000 (2009: US$82,000) with a carrying amount before provision of the same amount. The individually impaired accounts receivable relate to customers that were in financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

## 26. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND DEPOSITS (CONTINUED)

The aged analysis of the accounts receivable that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Neither past due nor impaired | **57,617** | 8,274 |
| Less than 180 days past due | **533** | 34 |
| Over 180 days past due | **457** | 45 |
| | **58,607** | 8,353 |

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's accounts receivable as at 31 December 2010 is an aggregate amount of US$43,335,000 (2009: Nil) due from related companies of the Group arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, bear daily interest at 0.05% after past due and are repayable within credit periods similar to those offered by the Group to its major customers.

## 27. DUE FROM/(TO) NON-CONTROLLING SHAREHOLDERS/RELATED COMPANIES

The balances with non-controlling shareholders are unsecured, interest free and have no fixed terms of repayment.

The amounts due from related companies included in non-current assets as at 31 December 2010 are unsecured, interest-free or bear interest at rates mutually agreed with the related companies and shall be fully settled by the related companies within three years from 28 February 2010.

The balances with related parties included in current assets and liabilities as at 31 December 2010 were arising from the normal business operation of the Group and are unsecured, interest-free or bear interest at rates mutually agreed with the related companies.

In the opinion of the directors, the carrying amounts of these balances approximate to their fair values.

## 28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Cash and bank balances | **122,939** | 6,636 | **2,438** | 171 |
| Time deposits | **41,050** | – | **–** | – |
| | **163,989** | 6,636 | **2,438** | 171 |
| Less: Pledged time deposits for interest-bearing bank borrowings *(note 30)* | **(25,921)** | – | **–** | – |
| Cash and cash equivalents | **138,068** | 6,636 | **2,438** | 171 |

## 28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to US$123,488,000 (2009: US$3,486,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 29. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUED EXPENSES

An aged analysis of the accounts payable, based on the date of receipt of the respective goods, together with other payables and accrued expenses of the Group, as at the end of the reporting period, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Less than 60 days | **149,634** | 8,156 | **–** | – |
| 61 to 180 days | **4,244** | 1,163 | **–** | – |
| 181 to 360 days | **132** | 12 | **–** | – |
| Over 360 days | **107** | – | **–** | – |
| | **154,117** | 9,331 | **–** | – |
| Other payables and accrued expenses | **85,700** | 10,840 | **2,071** | 2,717 |
| | **239,817** | 20,171 | **2,071** | 2,717 |

Included in the Group's accounts payable as at 31 December 2010 is an aggregate amount of US$4,221,000 (2009: Nil) due to related companies of the Group arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by its major suppliers.

## 30. INTEREST-BEARING BANK BORROWINGS

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Contractual interest rate (%)** | **Maturity** | **US$'000** | Contractual interest rate (%) | Maturity | US$'000 |
| **Group** | | | | | | |
| **Current** | | | | | | |
| Bank loans, secured | **5.3-6.6** | **2011** | **23,744** | 6.3 | 2010 | 4,385 |
| Bank loans, unsecured | **1.5-5.6** | **2011** | **203,829** | 4.2-6.7 | 2010 | 5,584 |
| | | | **227,573** | | | 9,969 |
| **Non-current** | | | | | | |
| Bank loans, unsecured | **LIBOR + 2.825** | **2012** | **12,375** | | | – |
| | | | **239,948** | | | 9,969 |

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **US$'000** | US$'000 |
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | **227,573** | 9,969 |
| In the second year | **12,375** | – |
| | **239,948** | 9,969 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 30. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

The carrying amounts of the Group's bank loans are denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| RMB | **73,440** | 9,441 |
| US$ | **163,944** | 528 |
| HK$ | **2,564** | – |
| | **239,948** | 9,969 |

At 31 December 2010, certain of the Group's property, plant and equipment located in Hong Kong and Mainland China, land lease prepayments and time deposits with carrying amounts of US$46,258,000 (2009: US$30,642,000) (note 18), US$13,974,000 (2009: US$550,000) (note 20) and US$25,921,000 (2009: Nil) (note 28), respectively, were pledged as security for various short and long term bank loans of the Group.

Interest on the Group's bank loans is payable at rates ranging from 1.5% to 6.6% (2009: 4.2% to 6.7%) per annum. The carrying amounts of these balances approximate to their fair values.

The Company's bank loan of US$2,564,000 (2009: Nil) as at 31 December 2010 was denominated in Hong Kong dollars. The bank loan is secured by one of the Group's office premises in Hong Kong with a carrying amount of US$24,827,000 (2009: Nil) (note 18) as at 31 December 2010, bears interest at HIBOR + 1.25% and is payable within one year. The carrying amount of the bank loan approximates to its fair value.

## 31. DEFERRED TAX

The movements in the Group's deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

**Group**

| | Valuation of properties<br>*US$'000* | Withholding tax<br>*US$'000* | Total<br>*US$'000* |
|---|---|---|---|
| At 1 January 2009 | 1,449 | – | 1,449 |
| Deferred tax charged to profit or loss during the year *(note 14)* | – | 511 | 511 |
| Deferred tax charged directly to equity during the year | 1,493 | – | 1,493 |
| At 31 December 2009 and 1 January 2010 | 2,942 | 511 | 3,453 |
| Deferred tax charged directly to equity during the year | 97 | – | 97 |
| At 31 December 2010 | 3,039 | 511 | 3,550 |

### Deferred tax assets

| **Group** | **2010**<br>***US$'000*** |
|---|---|
| At 1 January 2009, 31 December 2009 and 1 January 2010 | **–** |
| Acquisition of subsidiaries *(note 35)* | **897** |
| Exchange realignment | **32** |
| Gross deferred tax assets at 31 December 2010 | **929** |

The deferred tax assets are related to tax losses arising in Mainland China for offsetting against future taxable profits.

# NOTES TO FINANCIAL STATEMENTS

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## 31. DEFERRED TAX (CONTINUED)

The Group also has tax losses arising in Mainland China of US$43,341,000 (2009: US$1,201,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At the end of the reporting period, the Group had unused tax losses arising in Hong Kong of US$2,658,000 (2009: US$2,769,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the unused tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on any dividends distributable by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

During the year ended 31 December 2010, no deferred tax (2009: US$511,000) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 32. OTHER NON-CURRENT LIABILITIES

The amount represented compensations received by the Group in respect of the relocation of certain of the Group's plants. The relocations and constructions were still in progress as at 31 December 2010.

## 33. SHARE CAPITAL

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| **Authorised** | | |
| Ordinary shares: | | |
| 30,000,000,000 (2009: 15,000,000,000) of US$0.01 each | **300,000** | 150,000 |
| Convertible preference shares: | | |
| 20,000,000,000 (2009: Nil) of US$0.01 each | **200,000** | – |
| | **500,000** | 150,000 |
| **Issued and fully paid** | | |
| Ordinary shares: | | |
| 11,600,287,323 (2009: 2,889,730,786) of US$0.01 each | **116,003** | 28,898 |
| Convertible preference shares: | | |
| 4,523,465,054 (2009: Nil) of US$0.01 each | **45,235** | – |
| | **161,238** | 28,898 |

Pursuant to a special resolution passed at a special general meeting of the Company on 25 January 2010, the authorised share capital of the Company was increased to US$500,000,000 divided into 30,000,000,000 ordinary shares of US$0.01 each and 20,000,000,000 convertible preference shares of US$0.01 each by the creation of an additional 15,000,000,000 ordinary shares of US$0.01 each and 20,000,000,000 convertible preference shares of US$0.01 each.

The convertible preference shares are convertible into ordinary shares of the Company and are entitled to the same dividends that are declared for the ordinary shares. Convertible preference shares do not carry the right to vote in shareholders' meeting. Upon winding up, the Company's residual assets and funds are distributed to the members of the Company in the following priority:

(i) in paying to the holders of the convertible preference shares, pari passu as between themselves by reference to the aggregate nominal amount of the convertible preference shares held by them respectively, an amount equal to the aggregate of the issue price of all of the convertible preference shares held by them respectively;

## 33. SHARE CAPITAL (CONTINUED)

(ii) the balance of such assets shall be distributed on a pari passu basis among the holders of any class of shares in the capital of the Company other than the convertible preference shares and other than any shares which are not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amount of the shares held by them respectively; and

(iii) the remaining balance of such assets shall belong to and be distributed on a pari passu basis among the holders of any class of shares including the convertible preference shares, other than any shares not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amount of shares held by them respectively.

The convertible preference shares shall be non-redeemable by the Company or the holders thereof.

A summary of the movements in the Company's issued ordinary shares and convertible preference shares during the year is as follows:

| | Number of shares in issue | | | | | |
|---|---|---|---|---|---|---|
| | Ordinary shares | Convertible preference shares | Issued ordinary shares | Issued convertible preference shares | Share premium account | Total |
| | | | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| At 1 January 2009 | 2,889,730,786 | – | 28,898 | – | 73,897 | 102,795 |
| Transfer to retained profits | – | – | – | – | (73,897) | (73,897) |
| At 31 December 2009 and 1 January 2010 | 2,889,730,786 | – | 28,898 | – | – | 28,898 |
| Acquisition of subsidiaries | 2,724,758,578 | 10,509,263,013 | 27,247 | 105,093 | 868,694 | 1,001,034 |
| Conversion of convertible preference shares | 5,985,797,959 | (5,985,797,959) | 59,858 | (59,858) | – | – |
| At 31 December 2010 | 11,600,287,323 | 4,523,465,054 | 116,003 | 45,235 | 868,694 | 1,029,932 |

## 33. SHARE CAPITAL (CONTINUED)

### Share option scheme

The Company has adopted a share option scheme (the "Scheme") on 26 November 2002. The Scheme is operated 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, employees of the Group and those participants, in the Board's opinion, have contributions or potential contributions to the Group. 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 advance 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 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 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 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 offer and (iii) the nominal value of the share of the Company.

## 33. SHARE CAPITAL (CONTINUED)

### Share option scheme (continued)

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

647,544,234 share options were outstanding under the Scheme during the years ended 31 December 2010 and 2009 with a weighted average exercise price of HK$0.3768 each and there were no movements in the Company's share options during the years.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting periods are as follows:

| **Number of options** | **Exercise price** *HK$* | **Exercise period** |
|---|---|---|
| 215,848,078 | 0.3900 | 26 February 2003 to 25 February 2013 |
| 194,848,078 | 0.3900 | 3 May 2004 to 2 May 2014 |
| 236,848,078 | 0.3540 | 19 May 2005 to 18 May 2015 |
| 647,544,234 | | |

At the end of the reporting period, the Company had 647,544,234 share options outstanding under the Scheme, which represented approximately 5.6% of the Company's ordinary 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 647,544,234 additional ordinary shares and cash proceeds to the Company of approximately HK$244,016,000 (equivalent to approximately US$31,284,000) before the related issue expenses.

## 34. RESERVES

### (A) GROUP

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 64 to 65 of the financial statements.

(ii) The Group's capital reserve mainly represents gains arising from the deemed disposal of a subsidiary and an associate in previous years.

(iii) The Group's deferred payable shares represent the ordinary shares and/or convertible preference shares to be issued as part of the consideration for the acquisition of subsidiaries (note 35).

(iv) The Group's other reserve represents the excess of the consideration transferred for the acquisition of subsidiaries (note 35), and the amount recognised for non-controlling interests over the carrying amount of the assets acquired and liabilities assumed. Further details of the transaction are disclosed in notes 2 and 35 to the financial statements.

(v) A significant number of subsidiaries, jointly-controlled entities and an associate in which the Group has interests 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 contributions to 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 the associate, amounts designated as staff bonuses and welfare benefits have been charged to profit or loss before arriving at a net profit in accordance with IFRSs.

## 34. RESERVES (CONTINUED)

### (B) COMPANY

| | Notes | Share option reserve US$'000 | Deferred payable shares US$'000 | Retained profits/ (accumulated losses) US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | | 8,470 | – | (111,756) | (103,286) |
| Profit for the year and total comprehensive income for the year | 15 | – | – | 62,934 | 62,934 |
| Transfer in/(out) | | – | – | 73,897 | 73,897 |
| Proposed final 2009 dividend | 16 | – | – | (7,843) | (7,843) |
| At 31 December 2009 and 1 January 2010 | | 8,470 | – | 17,232 | 25,702 |
| Profit for the year and total comprehensive income for the year | 15 | – | – | 25,093 | 25,093 |
| Acquisition of subsidiaries | 35 | – | 249,658 | – | 249,658 |
| Final 2009 dividend | 16 | – | – | (181) | (181) |
| Proposed final 2010 dividend | 16 | – | – | (33,074) | (33,074) |
| At 31 December 2010 | | 8,470 | 249,658 | 9,070 | 267,198 |

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits/(accumulated losses) should the related option expire or be forfeited.

The Company's deferred payable shares represents the ordinary shares and/or convertible preference shares to be issued as part of the consideration for the acquisition of subsidiaries (note 35).

## 35. ACQUISITION OF SUBSIDIARIES

On 28 February 2010, the Group completed the acquisition of certain subsidiaries whose principal activities are the manufacturing and sale of feed products for a consideration of HK$5,382,000,000 (equivalent to approximately US$690,000,000) which shall be satisfied by the issue of the Company's ordinary shares and convertible preference shares (the "Consideration Shares") in the following manner:

(i) HK$886,908,917 (equivalent to approximately US$113,706,000) was satisfied on the date of completion of the acquisition by the allotment and issuance of 2,724,758,578 ordinary shares at an issue price of HK$0.3255 per share;

(ii) HK$2,155,091,083 (equivalent to approximately US$276,294,000) was satisfied on the date of completion of the acquisition by the allotment and issuance of 6,620,863,542 convertible preference shares at an issue price of HK$0.3255 per share; and

(iii) HK$2,340,000,000 (equivalent to approximately US$300,000,000) to be satisfied (on a deferred basis) after the date of completion of the acquisition and such fixed consideration shall be paid upon settlement of the long-term amounts due from related companies, by the allotment and issuance of up to an aggregate of 7,188,940,092 ordinary shares and/or convertible preference shares (the "deferred payable shares") at an issue price of HK$0.3255 per share.

The fair value of the aggregate of the Consideration Shares at the date of completion of the acquisition on 28 February 2010, determined with reference to the then closing quoted market price of the Company's ordinary shares on the Stock Exchange, amounted to US$1,250,692,000 and was treated as the cost of acquisition.

As at 31 December 2010, there are 3,300,540,621 deferred payable shares remain to be issued upon settlement of the long-term amounts due from related companies.

# NOTES TO FINANCIAL STATEMENTS

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## 35. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The carrying amounts of the assets and liabilities of the acquired subsidiaries as at the date of acquisition were as follows:

| | *Notes* | *US$'000* |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 18 | 186,010 |
| Investment properties | 19 | 1,761 |
| Land lease prepayments | 20 | 15,442 |
| Investments in jointly-controlled entities | | 8,392 |
| Investment in an associate | | 30,778 |
| Due from related companies | | 288,249 |
| Deferred tax assets | 31 | 897 |
| Available-for-sale investments | | 684 |
| Total non-current assets | | 532,213 |
| CURRENT ASSETS | | |
| Inventories | | 178,530 |
| Accounts receivable, other receivables and deposits | | 72,125 |
| Bills receivable | | 1,963 |
| Due from related companies | | 28,047 |
| Pledged deposits | | 614 |
| Cash and cash equivalents | | 79,060 |
| Total current assets | | 360,339 |
| CURRENT LIABILITIES | | |
| Accounts payable, other payables and accrued expenses | | 151,518 |
| Bills payable | | 15,010 |
| Income tax payable | | 1,805 |
| Provisions for staff bonus and welfare benefits | | 6,274 |
| Due to non-controlling shareholders | | 3,083 |
| Due to related companies | | 50,850 |
| Interest-bearing bank borrowings | | 349,106 |
| Total current liabilities | | 577,646 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank borrowings | | 54,145 |
| Net assets | | 260,761 |
| Non-controlling interests | | (39,261) |
| Total identifiable net assets required by the Group | | 221,500 |

The consideration of this acquisition is to be satisfied by the issue of 16,534,562,212 ordinary shares/convertible preference shares.

## 35. ACQUISITION OF SUBSIDIARIES (CONTINUED)

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

| | US$'000 |
|---|---|
| Consideration paid in cash | – |
| Cash and cash equivalents balances acquired | 79,060 |
| Cash and bank balances acquired and net inflow of cash and cash equivalents included in the cash flows from investing activities | 79,060 |

Since the acquisition, the acquired subsidiaries contributed US$1,839,296,000 to the Group's turnover and US$110,269,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue from operations of the Group and the profit of the Group for the year would have been US$2,108,932,000 and US$113,868,000, respectively.

Acquisition related costs amounting to US$3,103,000 had been recognised as expenses during the year ended 31 December 2009 (note 10).

## 36. 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.

The products of the Company's subsidiaries, jointly-controlled entities and an associate 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 the associate, 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.

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 the associate of the Company.

# NOTES TO FINANCIAL STATEMENTS

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## 37. COMMITMENTS

The Group's had the following capital commitments as at the end of the reporting period:

| | 2010 | 2009 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Contracted, but not provided for: | | |
| Buildings | 10,756 | – |
| Plant and machinery | 3,349 | – |
| | 14,105 | – |

The Group's share of capital commitments of the jointly-controlled entities is as follows:

| | 2010 | 2009 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Contracted, but not provided for | 1,577 | 728 |
| Authorised, but not contracted for | 105 | – |
| | 1,682 | 728 |

## 38. OPERATING LEASE ARRANGEMENTS

### As lessor

At 31 December 2010, the Group had total future minimum lease receivables of US$585,000 (2009: Nil) under non-cancellable operating leases with its tenants falling due within one year.

## 38. OPERATING LEASE ARRANGEMENTS (CONTINUED)

### As lessee

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Buildings: | | |
| Within one year | 358 | 110 |
| In the second to fifth years, inclusive | 820 | 52 |
| Over five years | 4,405 | – |
| | 5,583 | 162 |

## 39. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities in respect of the Group's guarantees not provided for in the financial statements are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 US$'000 | 2009 US$'000 | 2010 US$'000 | 2009 US$'000 |
| Guarantees given to a financial institution for facilities granted to: | | | | |
| Jointly-controlled entity | – | 30,550 | – | – |
| Related companies | 7,564 | – | – | – |
| Guarantee in respect of a loan borrowed by a jointly-controlled entity | 23,751 | 23,751 | – | – |
| Guarantee given to a PRC authority in respect of the capital contribution to a subsidiary | – | – | 30,000 | – |
| | 31,315 | 54,301 | 30,000 | – |

At 31 December 2010, the facilities granted to related companies subject to guarantees given to a financial institution by the Group were utilised to the extent of US$7,564,000.

At 31 December 2009, the facilities granted to a jointly-controlled entity subject to guarantees given to a financial institution by the Group were utilised to the extent of US$30,550,000.

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

| | | Group | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Notes* | ***US$'000*** | *US$'000* |
| Sales of goods to: | | | |
| Jointly-controlled entities and an associate | (i) | **18,267** | – |
| Related companies | (ii) | **302,228** | 3,563 |
| Purchases of raw materials from: | | | |
| Jointly-controlled entities and an associate | (i) | **12,614** | – |
| Related companies | (iii) | **8,729** | 124 |
| Interest income on overdue accounts receivable from related companies | (iv) | **5,099** | – |
| Interest income on amounts due from related companies | (v) | **919** | – |
| Rental income received from related companies | (vi) | **2,325** | – |

*Notes:*

(i) The sales of goods and purchases of raw materials were made by reference to the published prices and conditions offered to the major customers and offered by the major suppliers of the Group, respectively.

(ii) The sales of goods to related companies were made by reference to the prevailing market prices of, the cost of marketing (if any) and demand for the goods in Mainland China, and shall be no less favourable than those available to the Group's customers which are independent third parties.

(iii) The purchases of raw materials from related companies were determined on the basis of arm's length negotiations and the purchase prices shall not be higher than the prevailing market prices in Mainland China, and shall be no less favourable than those available to the Group from suppliers which are independent third parties.

## 40. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(iv) The interest income was charged at a daily rate of 0.05% on the overdue accounts receivable from the related companies.

(v) The interest income was charged on loan advanced to the related companies at mutually agreed rates.

(vi) The rental income was related to the lease of land, buildings and plant and machinery by the Group to the related companies for their non-feed production activities. The rental income was determined by reference to the depreciation charge incurred by the Group in relation to the assets rented to the related companies.

(b) Details of the outstanding balances with non-controlling shareholders and related companies are included in note 27 to the financial statements.

(c) Details of the guarantee given by the Group to a financial institution for facilities granted to jointly-controlled entities are included in note 39 to the financial statements.

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

| | **2010** | 2009 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Short term employee benefits | **3,693** | 1,861 |

The key management personnel of the Group are the directors of the Company and 1 (2009: 3) senior management member. Further details of directors' emoluments are included in note 11 to the financial statements.

The sales of goods and purchases of raw materials from/to related companies and rental income from related companies in notes (a)(ii), (a)(iii) and (a)(vi), and the guarantee given to a financial institution for facility granted to a jointly-controlled entity disclosed in note 39 to the financial statements constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 41. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the equity investments being classified as available-for-sale investments as disclosed in note 24 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2010 and 2009, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to market risk arising primarily from changes in interest rates and currency exchange rates. The Group does not hold or issue derivative financial instruments for trading purposes.

### (a) Interest rate risk

The Group's exposure to market risk arising from 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.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is that not less than 50% of interest-bearing borrowings should be at fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings) and the Group's equity.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (A) Interest rate risk (continued)

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax | Increase/ (decrease) in equity |
|---|---|---|---|
| | % | *US$'000* | *US$'000* |
| Year ended 31 December 2010 | | | |
| United States dollar | 500 | (13) | (13) |
| United States dollar | (500) | 7 | 7 |
| Year ended 31 December 2009 | | | |
| United States dollar | 500 | – | – |
| United States dollar | (500) | – | – |

### (B) Concentrations of credit risk

The Group places its cash deposits with major international banks and financial institutions. This cash management 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 accounts receivable 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 profit or loss 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.

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.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (c) Fair value of financial instruments

(i) Cash and cash equivalents, accounts and bills receivables, and accounts and other payables:

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 60-day terms, are recognised and carried at original invoiced amounts less allowances for any uncollectible 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 payables 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 approximate to their fair values.

(ii) Amounts due from and to non-controlling shareholders and related companies:

The carrying amounts of the receivables from and payables to non-controlling shareholders and related companies approximate to their fair values.

(iii) Interest-bearing bank borrowings:

The carrying amounts of interest-bearing bank borrowings approximate to their fair values.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (d) Foreign currency risk

The Group's businesses are principally operated in Mainland China and substantially all transactions are conducted in RMB. In the opinion of the directors, the foreign currency risk exposure is insignificant.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities of the Group's foreign subsidiaries).

| | Increase/ (decrease) in RMB rate | Increase/ (decrease) in profit before tax US$'000 | Increase/ (decrease) in equity* US$'000 |
|---|---|---|---|
| **2010** | | | |
| If United States dollar weakens against RMB | **3%** | **404** | **(2,521)** |
| If United States dollar strengthens against RMB | **(3%)** | **(404)** | **2,521** |
| 2009 | | | |
| If United States dollar weakens against RMB | 3% | – | (98) |
| If United States dollar strengthens against RMB | (3%) | – | 98 |

* Excluding retained profits

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (E) LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

**Group**

| | 2010 | | | | |
|---|---|---|---|---|---|
| | On demand *US$'000* | Less than 3 months *US$'000* | 3 to less than 12 months *US$'000* | 1 to 5 years *US$'000* | Total *US$'000* |
| Accounts payable | 5,596 | 146,085 | 2,436 | – | 154,117 |
| Other payables and accrued expenses | 85,700 | – | – | – | 85,700 |
| Due to non-controlling shareholders | 4,531 | – | – | – | 4,531 |
| Due to related companies | 5,370 | – | – | – | 5,370 |
| Interest-bearing bank borrowings | – | 56,180 | 175,210 | 12,825 | 244,215 |
| | 101,197 | 202,265 | 177,646 | 12,825 | 493,933 |

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (E) Liquidity risk (continued)

**Group (continued)**

| | 2009 | | | | |
|---|---|---|---|---|---|
| | On demand | Less than 3 months | 3 to less than 12 months | 1 to 5 years | Total |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Accounts payable *(note 29)* | 161 | 9,170 | – | – | 9,331 |
| Other payables and accrued expenses *(note 29)* | 10,840 | – | – | – | 10,840 |
| Due to non-controlling shareholders | 527 | – | – | – | 527 |
| Due to related companies | 2,020 | – | – | – | 2,020 |
| Interest-bearing bank borrowings | – | 7,203 | 2,975 | – | 10,178 |
| | 13,548 | 16,373 | 2,975 | – | 32,896 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (E) LIQUIDITY RISK (CONTINUED)

**Company**

| | 2010 | | | 2009 |
|---|---|---|---|---|
| | | **Less than** | | Less than |
| | **On demand** | **3 months** | **Total** | 3 months |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** | *US$'000* |
| Due to subsidiaries | **12,770** | **–** | **12,770** | – |
| Other payables and accrued expenses *(note 29)* | **2,071** | **–** | **2,071** | 2,717 |
| Interest-bearing bank borrowings *(note 30)* | **–** | **2,564** | **2,564** | – |
| | **14,841** | **2,564** | **17,405** | 2,717 |

### (F) CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (F) CAPITAL MANAGEMENT (CONTINUED)

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain the gearing ratio at reasonable levels. Capital represents the equity attributable to owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

**Group**

| | **2010** | 2009 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Accounts payable, other payables and accrued expenses | **239,817** | 20,171 |
| Provisions for staff bonuses and welfare benefits | **6,365** | 630 |
| Due to non-controlling shareholders | **4,531** | 527 |
| Due to related companies | **5,370** | 2,020 |
| Interest-bearing bank borrowings | **239,948** | 9,969 |
| Less: cash and cash equivalents | **(138,068)** | (6,636) |
| Net debt | **357,963** | 26,681 |
| Capital | **496,185** | 124,082 |
| Capital and net debt | **854,148** | 150,763 |
| Gearing ratio | **42%** | 18% |

# NOTES TO FINANCIAL STATEMENTS

31 December 2010

## 43. EVENTS AFTER THE REPORTING PERIOD

(i) On 21 January 2011, Charoen Pokphand Group Company Limited ("CPG", an associate of the controlling shareholders of the Company) and the Company entered into an option agreement (the "Option Agreement") pursuant to which CPG granted the Company an option (the "Option") to require CPG to sell or procure the sale of an aggregate of 70.82% of the total issued share capital of C.P. Vietnam Livestock Corporation, an integrated livestock and aquaculture company in Vietnam (the "CPVL Acquisition"). The Company shall have the absolute discretion in determining whether to exercise the Option, the exercise period of which will expire on 30 June 2011.

It is expected that should the Company decide to exercise the Option, the CPVL Acquisition would constitute possibly a major transaction and connected transaction under Chapters 14 and 14A of the Listing Rules.

The Board will carefully consider whether the Company should exercise the Option prior to the expiry of the exercise period in light of the interests of the Company and its shareholders as a whole.

Further details regarding the Option Agreement are set out in the Company's announcement dated 21 January 2011.

(ii) In prior years, Ek Chor China Motorcycle Co. Ltd. ("EKCM"), a wholly-owned subsidiary of the Company, had provided a guaranty in favour of Caterpillar (China) Financial Leasing Co., Ltd. ("CCFL"), guaranteeing all present and future indebtedness of the ECI Metro Investment Co. Ltd., a jointly-controlled entity of the Group, and its wholly-owned subsidiaries (collectively referred to as the "ECI Metro Group") advanced by CCFL on or before 1 July 2009 (the "Existing Obligations") up to the maximum amount of US$30,550,000 (the "Guaranty").

On 14 March 2011, EKCM has executed the second amended deed in favour of CCFL to renew the Guaranty, extended the Guaranty to cover all present and future indebtedness including the Existing Obligations of the ECI Metro Group advanced by CCFL and increased the amount of the Guaranty up to the maximum amount of US$50,550,000 so as to allow a greater credit facility to be obtained by the ECI Metro Group from CCFL.

Further details regarding the above arrangement are set out in the Company's announcement dated 14 March 2011.

## 44. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of new and revised IFRSs during the current year, the 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 and restated to conform with the current year's presentation.

## 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2011.

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

31 December 2010

## SUBSIDIARIES

Particulars of the subsidiaries as at the end of the reporting period are as follows:

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Charoen Pokphand (China) Investment Limited | US$55,130,000 | British Virgin Islands | **100.0%** | – | Investment holding |
| CP China Investment Limited | US$79,228,000 | Cayman Islands | **100.0%** | – | Investment holding |
| C.P. Standard Resources Limited | HK$2,000,000 | Hong Kong | **100.0%*** | 100.0%* | Dormant |
| C.P. Enterprises Limited | HK$27,800,000 | Hong Kong | **100.0%*** | 100.0%* | Investment holding |
| C.T. Progressive (H.K.) Ltd. | HK$1,000,000 | Bermuda | **100.0%** | 100.0% | Investment holding |
| Changsha Chia Tai Co., Ltd.^ | RMB134,000,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Chengdu Chia Tai Company Limited^^ | US$6,300,000 | PRC/ Mainland China | **70.0%*** | – | Production and sale of animal feed |
| Chia Tai (China) Investment Co., Ltd.^ | US$162,256,783 | PRC/ Mainland China | **100.0%** | – | Investment holding and trading |
| Chia Tai Huazhong Biochemistry Limited | HK$1 | Hong Kong | **100.0%** | 100.0% | Investment holding |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

31 December 2010

## SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Chia Tai Pucheng Biochemistry Limited | US$10,000 | Hong Kong | **100.0%** | 100.0% | Investment holding |
| Chia Tai Yongji Enterprise Co., Ltd.^ | US$7,062,018 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Chia Tai Yueyang Company Limited^^^ | US$9,550,000 | PRC/ Mainland China | **100.0%*#** | – | Production and sale of animal feed |
| Chongqing Chia Tai Company Limited^^ | US$5,920,000 | PRC/ Mainland China | **60.0%*** | – | Production and sale of animal feed |
| Chongqing Shuangqiao Chia Tai Co., Ltd.^^ | US$4,520,000 | PRC/ Mainland China | **70.0%*** | – | Production and sale of animal feed |
| Chu Zhou Chia Tai Co., Ltd.^ | US$5,398,500 | PRC/ Mainland China | **100.0%** | – | Production and sale of animal feed |
| ECI Machinery Co., Ltd. | US$1 | British Virgin Islands | **100.0%*** | 100.0%* | Investment holding |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

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## SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Ek Chor China Motorcycle Co., Ltd. | US$1,195,200 | Bermuda | **100.0%** | 100.0% | Investment holding |
| Ek Chor Investment Company Limited | HK$28,300,000 | Hong Kong | **100.0%*** | 100.0%* | Investment holding |
| Fuzhou Da Fu Company Limited^ | RMB18,000,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Ganzhou Chia Tai Industrial Co., Ltd.^ | RMB18,000,000 | PRC/ Mainland China | **80.0%*** | – | Production and sale of animal feed |
| Golden Industrial Investment Limited | HK$1 | Hong Kong | **100.0%*** | 100.0%* | Investment holding |
| Guang An Chia Tai Co., Ltd.^^ | RMB24,500,000 | PRC/ Mainland China | **60.0%*** | – | Production and sale of animal feed |
| Guangdong Tai Tong Investment Co. Ltd. | US$30,000,000 | PRC/ Mainland China | **100.0%** | – | Investment holding |
| Guanghan Chia Tai Feed Tech Co., Ltd.^^ | US$818,250.95 | PRC/ Mainland China | **91.0%** | – | Production and sale of animal feed |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

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## SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Guilin Chia Tai Co., Ltd.^^ | US$3,720,000 | PRC/ Mainland China | **85.0%** | – | Production and sale of animal feed |
| Guiyang Chia Tai Co., Ltd.^ | RMB10,000,000 | PRC/ Mainland China | **100.0%*** | – | Dormant |
| Hangzhou Advance Feed Tech Co., Ltd.^^ | RMB6,700,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Hannick Limited | HK$2 | Hong Kong | **100.0%*** | 100.0%* | Property investment |
| Huai Hua Chia Tai Co., Ltd.^^^ | US$3,900,000 | PRC/ Mainland China | **100.0%*#** | – | Production and sale of animal feed |
| Huludao Chia Tai Husbandry Co., Ltd.^ | RMB28,100,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Inner Mongolia Chia Tai Co., Ltd. | US$4,332,200 | PRC/ Mainland China | **93.7%*#** | – | Production and sale of animal feed |
| Jiang Jin Chia Tai Co., Ltd.^^ | RMB7,000,000 | PRC/ Mainland China | **60.0%*** | – | Production and sale of animal feed |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

31 December 2010

## SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Jiangsu Huai Yin Chia Tai Co., Ltd.^^ | US$3,621,000 | PRC/ Mainland China | **88.0%*** | – | Production and sale of animal feed |
| Jinan Chia Tai Company Limited^^ | US$1,718,000 | PRC/ Mainland China | **65.0%*** | – | Production and sale of animal feed |
| Jiu Jiang Chia Tai Feedstuff Co., Ltd.^^ | RMB34,000,000 | PRC/ Mainland China | **60.0%*** | – | Production and sale of animal feed |
| Kunming Chia Tai Co., Ltd.^^^ | US$6,405,300 | PRC/ Mainland China | **92.4%*#** | – | Production and sale of animal feed |
| Lanzhou Chia Tai Company Limited^^^ | US$5,604,000 | PRC/ Mainland China | **100.0%*#** | – | Production and sale of animal feed |
| Liuzhou Advance Feed Tech Co., Ltd.^ | RMB6,700,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Mianyang Chia Tai Co., Ltd.^^ | US$4,000,000 | PRC/ Mainland China | **80.0%*** | – | Production and sale of animal feed |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

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## SUBSIDIARIES (continued)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Nanchang Chia Tai Livestock Co., Ltd.^^^ | US$5,120,200 | PRC/ Mainland China | **100.0%*#** | – | Production and sale of animal feed |
| Nanning Chia Tai Animal Husbandry Company Limited^ | US$6,774,500 | PRC/ Mainland China | **91.6%*#** | – | Production and sale of animal feed |
| Nantong Chia Tai Co., Ltd.^^ | US$9,630,000 | PRC/ Mainland China | **60.0%*** | – | Production and sale of animal feed |
| Nantong Chia Tai Feed Co., Ltd.^^ | RMB60,000,000 | PRC/ Mainland China | **60.0%*** | – | Production and sale of animal feed |
| Nantong Chia Tai Technology Feed Co., Ltd.^^ | RMB3,000,000 | PRC/ Mainland China | **60.0%*** | – | Production and sale of animal feed |
| Nanyang Chia Tai Co., Ltd.^^^ | RMB20,000,000 | PRC/ Mainland China | **100.0%*#** | – | Production and sale of animal feed |
| Neijiang Chia Tai Co., Ltd.^^ | US$3,900,000 | PRC/ Mainland China | **70.0%*** | – | Production and sale of animal feed |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

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## SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Ningbo Chia Tai Agriculture Company Limited^^ | US$7,415,300 | PRC/ Mainland China | **70.0%*** | – | Production and sale of animal feed |
| Pingdingshan Chia Tai Co., Ltd.^^ | US$2,761,321 | PRC/ Mainland China | **70.0%*** | – | Production and sale of animal feed |
| Pucheng Chia Tai Biochemistry Co., Ltd.^^ | RMB100,000,000 | PRC/ Mainland China | **69.5%*** | 69.5%* | Production and sale of chlortetracycline |
| Qingdao Chia Tai Agricultural Development Co., Ltd.^ | US$5,630,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Shaanxi Chia Tai Co., Ltd.^^^ | US$6,729,100 | PRC/ Mainland China | **96.0%*##** | – | Production and sale of animal feed |
| Shanxi Chia Tai Company Limited^^^ | US$11,673,200 | PRC/ Mainland China | **59.9%*** | – | Production and sale of animal feed |
| Shanghai Ek Chor Industrial Trading Co., Ltd.^ | US$200,000 | PRC/ Mainland China | **100.0%*** | 100.0%* | Dormant |
| Shenyang Advance Feed Tech Co., Ltd.^ | RMB6,700,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |

## SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Shenyang Chia Tai Livestock Co., Ltd.^^^ | US$5,600,000 | PRC/ Mainland China | **100.0%*###** | – | Production and sale of animal feed |
| Shijiazhuang Chia Tai Company Limited^^^ | RMB22,000,000 | PRC/ Mainland China | **100.0%*#** | – | Production and sale of animal feed |
| Shuangliu Chia Tai Co., Ltd.^^ | US$4,000,000 | PRC/ Mainland China | **70.0%*** | – | Production and sale of animal feed |
| Tai Zhou Chia Tai Feed Co., Ltd.^^ | US$2,101,051 | PRC/ Mainland China | **76.0%*** | – | Production and sale of animal feed |
| Tianjin Chia Tai Agro-Industrial Co., Ltd.^ | RMB65,540,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Tianjin Chia Tai Feed Tech Company Limited^ | US$23,812,500 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Urumqi Chia Tai Animal Husbandry Co., Ltd.^^^ | RMB34,250,000 | PRC/ Mainland China | **93.4%*** | – | Production and sale of animal feed |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

31 December 2010

## SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Wuhan Chia Tai Co., Ltd.^^^ | US$3,750,000 | PRC/ Mainland China | 100.0%*# | – | Production and sale of animal feed |
| Xiamen Chia Tai Agriculture Co., Ltd.^^ | RMB30,400,000 | PRC/ Mainland China | 60.0%* | – | Production and sale of animal feed |
| Xiang Fan Chai Tai Co., Ltd.^ | RMB59,000,000 | PRC/ Mainland China | 100.0%* | – | Production and sale of animal feed |
| Xuzhou Chia Tai Feed Co., Ltd.^^ | RMB16,000,000 | PRC/ Mainland China | 65.0%* | – | Production and sale of animal feed |
| Yi Chang Chia Tai Co., Ltd.^ | US$18,090,000 | PRC/ Mainland China | 100.0%* | – | Production and sale of animal feed |
| Yinchuan Chia Tai Co., Ltd.^^ | RMB6,000,000 | PRC/ Mainland China | 85.0%* | – | Production and sale of animal feed |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

31 December 2010

## SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Yongan Chia Tai Co., Ltd.^ | RMB7,000,000 | PRC/ Mainland China | **100.0%*** | – | Production and sale of animal feed |
| Zhumadian Chia Tai Company Limited^^ | RMB28,060,000 | PRC/ Mainland China | **61.0%*** | – | Production and sale of animal feed |
| Zhumadian Huazhong Chia Tai Co., Ltd.^^ | RMB72,000,000 | PRC/ Mainland China | **70.0%*** | 70.0%* | Production and sale of chlortetracycline |

* Held by subsidiaries.

# The Group was only entitled to 85% of the subsidiary's earnings. The remaining 15% was attributable to a PRC entity.

## The Group was only entitled to 87.15% of the subsidiary's earnings. The remaining 12.85% was attributable to a PRC entity.

### The Group was only entitled to 87.5% of the subsidiary's earnings. The remaining 12.5% was attributable to a PRC entity.

^ Established as a limited company.

^^ Established as a contractual joint venture.

^^^ Established as a cooperative joint venture.

All subsidiaries have their place of operation in Hong Kong except for those subsidiaries which are incorporated or registered in Mainland China which operate in their respective places of incorporation/registration.

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

31 December 2010

## JOINTLY-CONTROLLED ENTITIES

Particulars of the jointly-controlled entities as at the end of the reporting period are as follows:

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Beijing Chia Tai Feedmill Limited | US$5,000,000 | PRC/ Mainland China | **50.0%** | – | Production and sale of animal feed |
| Chong Qing Dezhong Machine Manufacture Co., Ltd. | RMB8,550,000 | PRC/ Mainland China | **28.0%** | 28.0% | Production and sale of motorcycle and automotive carburetors |
| ECI Metro Investment Co., Ltd. | US$12,000,000 | British Virgin Islands | **50.0%** | 50.0% | Investment holding and trading of machinery and spare parts |
| ECI Metro Machinery & Power Equipment (Sichuan) Co | US$3,200,000 | PRC/ Mainland China | **50.0%** | – | Production and sale of power equipment and spare parts |
| ECI Metro Trading (Shanghai) Co., Ltd. | US$225,000 | PRC/ Mainland China | **50.0%** | 50.0% | Trading of Caterpillar products |
| Gansu ECI-Metro Engineering Machinery Service Co., Ltd | US$550,000 | PRC/ Mainland China | **50.0%** | 50.0% | Provision of Caterpillar machinery repair and maintenance services |

## JOINTLY-CONTROLLED ENTITIES (CONTINUED)

Particulars of the jointly-controlled entities as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Guizhou ECI-Metro Engineering Machinery Service Co., Ltd | US$320,000 | PRC/ Mainland China | **50.0%** | 50.0% | Provision of Caterpillar machinery repair and maintenance services |
| Han Dan Chia Tai Feed Co., Ltd. | RMB11,200,000 | PRC/ Mainland China | **50.0%** | – | Production and sale of animal feed |
| Henan East Chia Tai Co., Ltd. | US$5,400,000 | PRC/ Mainland China | **50.0%** | – | Production and sale of animal feed |
| Jilin Chia Tai Enterprise Co., Ltd. | US$8,284,000 | PRC/ Mainland China | **50.0%** | – | Production and sale of animal feed |
| Luoyang Northern Ek Chor Motorcycle Company Limited | US$56,310,000 | PRC/ Mainland China | **55.0%*** | 55.0%* | Production and sale of motorcycles and spare parts |
| Qinghai ECI-Metro Engineering Machinery Service Co., Ltd. | US$550,000 | PRC/ Mainland China | **50.0%** | 50.0% | Provision of Caterpillar machinery repair and maintenance services |

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

31 December 2010

## JOINTLY-CONTROLLED ENTITIES (CONTINUED)

Particulars of the jointly-controlled entities as at the end of the reporting period are as follows: (continued)

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Shaanxi ECI-Metro Engineering Machinery Service Co., Ltd. | US$550,000 | PRC/ Mainland China | **50.0%** | 50.0% | Provision of Caterpillar machinery repair and maintenance services |
| Sichuan ECI-Metro Engineering Machinery Co., Ltd. | US$650,000 | PRC/ Mainland China | **50.0%** | 50.0% | Provision of Caterpillar machinery repair and maintenance services |
| Sichuan Yi Ming Engineering Machinery Co., Ltd. | US$0 | PRC/ Mainland China | **50.0%** | – | Production and sale of power equipment and spare parts |
| Yunnan ECI Metro Engineering Machinery Service Co., Ltd. | US$2,025,000 | PRC/ Mainland China | **50.0%** | 50.0% | Provision of Caterpillar machinery repair and maintenance services |
| Zhan Jiang Deni Carburetor Co., Ltd. | RMB117,083,250 | PRC/ Mainland China | **28.0%*** | 28.0%* | Production and sale of motorcycle carburetors and automobile accessories |

* Since neither the Group nor its joint venture partner is in a position to exercise unilateral control over the economic activity of these joint venture companies, the Group's interests therein are classified as interests in jointly-controlled entities.

# LIST OF SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

31 December 2010

## ASSOCIATE

Particulars of the associate as at the end of the reporting period are as follows:

| Name of company | Nominal value of issued/ paid-up registered share capital | Place of incorporation/ registration and operations | Percentage of equity capital held 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Conti Chia Tai International Limited | HK$3,122,000 | Hong Kong | **50.0%** | – | Production and sale of animal feed |

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS
Mr. Dhanin Chearavanont *(Chairman)*
Mr. Thanakorn Seriburi *(Vice Chairman and Chief Executive Officer (Industrial Division))*
Mr. Soopakij Chearavanont *(Vice Chairman)*
Mr. Anan Athigapanich
Mr. Damrongdej Chalongphuntarat
Mr. Bai Shanlin *(Chief Executive Officer (Feed Division))*
Mr. Suphachai Chearavanont
Mr. Robert Ping-Hsien Ho

## NON-EXECUTIVE DIRECTORS
Mr. Meth Jiaravanont
Mr. Patrick Thomas Siewert
Mr. Poon Yee Man Alwin *(alternate to Mr. Patrick Thomas Siewert)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Ma Chiu Cheung, Andrew
Mr. Sombat Deo-isres
Mr. Sakda Thanitcul

## AUDIT COMMITTEE
Mr. Ma Chiu Cheung, Andrew *(Chairman)*
Mr. Meth Jiaravanont
Mr. Patrick Thomas Siewert
Mr. Sombat Deo-isres
Mr. Sakda Thanitcul

## REMUNERATION COMMITTEE
Mr. Thanakorn Seriburi *(Chairman)*
Mr. Patrick Thomas Siewert
Mr. Ma Chiu Cheung, Andrew
Mr. Sombat Deo-isres
Mr. Sakda Thanitcul

## QUALIFIED ACCOUNTANT
Ms. Wong Pui Shan

## COMPANY SECRETARY
Ms. Chan Pui Shan, Bessie

## REGISTERED OFFICE
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22 Victoria Street
Hamilton HM12
Bermuda

## PRINCIPAL PLACE OF BUSINESS
21/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

## AUDITORS
Ernst & Young
Certified Public Accountants

## LEGAL ADVISORS
*Hong Kong Law*
Morrison & Foerster

*Bermudian Law*
Appleby

## PRINCIPAL BANKERS
Citibank (Hong Kong) Limited
Bank of America, N.A.

## SHARE REGISTRARS
*Hong Kong*
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F., Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

*Bermuda*
Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

## SHARE LISTING
The Stock Exchange of Hong Kong Limited
Stock Code: 43

## ADR FACILITIES
Sponsored Level 1
American Depositary Receipt ("ADR")
Ratio: 1 ADR = 25 Ordinary Shares
Exchange: OTC
Symbol: CPKPY
CUSIP: 125918201

## DEPOSITORY
The Bank of New York
American Depositary Receipts Division
22/F., 101 Barclay Street
New York NY 10286
U.S.A.

## WEBSITE
http://www.cpp.hk

**C.P. POKPHAND CO. LTD.**

(Incorporated in Bermuda with limited liability)

(Stock Code:43)

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