**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your securities in C.P. POKPHAND CO. LTD., you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.



# C.P. POKPHAND CO. LTD.

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 43)

## (1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE INTEREST IN MODERN STATE INVESTMENTS LIMITED
## (2) INCREASE IN AUTHORISED SHARE CAPITAL
## (3) AMENDMENTS TO BYE-LAWS
## (4) ISSUE OF NEW CONVERTIBLE PREFERENCE SHARES
## (5) SPECIFIC MANDATE FOR THE ISSUE OF NEW ORDINARY SHARES, NEW CONVERTIBLE PREFERENCE SHARES AND CPS CONVERSION SHARES
## AND
## (6) CONTINUING CONNECTED TRANSACTIONS

**Financial Adviser to C.P. POKPHAND CO. LTD.**

UBS

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders**

CIMB

A letter from the Board is set out on pages 6 to 44 of this circular. A letter from the Independent Board Committee and a letter from the independent financial adviser, CIMB Securities (HK) Limited, containing its advice to the Independent Board Committee and the Independent Shareholders, are set out on page 45 and pages 46 to 72 of this circular respectively.

A notice convening the special general meeting of C.P. POKPHAND CO. LTD. to be held at 21st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong on Friday, 22 July 2011 at 10:00 a.m. is set out on pages 156 to 180 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

21 June 2011

# CONTENTS

*In this circular, the following expressions shall have the following meanings unless the context otherwise requires:*

| | |
|---|---|
| "Acquisition" | the proposed acquisition of the entire interest in Modern State by the Company |
| "Acquisition Agreement" | the agreement dated 30 May 2011 entered into between the Vendor and the Company in relation to the Acquisition |
| "Audited 2010 Technical Service Fee Adjustment" | the amount of technical service fee that would have been received by Modern State had the MS Technical Assistance Services Agreement been entered into and effective on 1 January 2010, being 1.5% of the net sales value of the products manufactured, produced and/or sold by CPVL less applicable withholding tax thereon chargeable in Vietnam |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" | the board of Directors |
| "Bye-laws" | the bye-laws of the Company for the time being |
| "CAGR" | compound annual growth rate |
| "Chearavanont Shareholders" | four members of the Chearavanont family, namely, Mr. Jaran Chiaravanont, Mr. Montri Jiaravanont, Mr. Sumet Jiaravanon and Mr. Dhanin Chearavanont, who, on an aggregate basis, are directly and indirectly interested in approximately 68.27% of the issued share capital of the Company |
| "Company" or "CPP" | C.P. POKPHAND CO. LTD., an exempted company incorporated in Bermuda whose Ordinary Shares are listed and traded on the Main Board of the Stock Exchange under stock code 43 |
| "Completion" | Completion of the Acquisition by the Company |
| "Consideration" | the total consideration payable by the Company for the Acquisition |
| "Continuing Connected Transactions" | the continuing connected transactions under the Revised CCT Agreements |
| "Control" | possession, directly or indirectly, of the power to direct or cause the direction of the operations and management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and "Controlled" and "Controls" shall be construed accordingly |

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| "Convertible Preference Shares" | the Existing Convertible Preference Shares and/or (where the context requires) the New Convertible Preference Shares |
| "CPG" | Charoen Pokphand Group Company Limited, a company organised and existing under the laws of the Kingdom of Thailand and owned as to 51.31% by the Chearavanont Shareholders |
| "CPG Technical Assistance Services Agreement" | the technical assistance services agreement dated 19 August 2009 made between CPG and CPVL, as amended by an addendum dated 1 January 2011 and as further amended by a second addendum dated 30 May 2011, relating to the provision by CPG of certain services to CPVL |
| "CPP Group" | the Company and its subsidiaries from time to time |
| "CPP Purchase Products" | the products to be purchased by the CPP Group from CPT and/or its related entities under the Revised Master CPP Purchase Agreement |
| "CPP Shares" | shares in the capital of the Company, comprising, as at the date of this Circular, Ordinary Shares and Existing Convertible Preference Shares |
| "CPP Supply Products" | the products to be supplied by the CPP Group to OSIL and/or its related entities under the Revised Master CPP Supply Agreement |
| "CPS Conversion Shares" | the Ordinary Shares to be issued by the Company upon the conversion of the New Convertible Preference Shares which shall rank pari passu with the other existing Ordinary Shares |
| "CPT" | C.P. Trading Co., Ltd., a company incorporated in the British Virgin Islands with limited liability |
| "CPVL" | C.P. Vietnam Livestock Corporation, a joint stock company incorporated in Vietnam and held as to 70.82% by Modern State |
| "Directors" | the directors of the Company |
| "Discloseable CCT Agreements" | the CPG Technical Assistance Services Agreement and the MS Technical Assistance Services Agreement |
| "Enlarged Group" | CPP and its subsidiaries, jointly-controlled entities and associated companies following the completion of the Acquisition |

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| "Existing Convertible Preference Shares" | convertible preference shares of US$0.01 each in the existing capital of the Company (which shall be redesignated as "Series A Convertible Preference Shares" upon the passing of the relevant resolution at the SGM) |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "IFRS" | International Financial Reporting Standards issued by the International Accounting Standards Board |
| "Independent Board Committee" | the board committee appointed by the Board, comprising the independent non-executive Directors, Mr. Ma Chiu Cheung, Andrew, Mr. Sombat Deo-isres and Mr. Sakda Thanitcul, which has been established to advise the Independent Shareholders in relation to the Acquisition and the Continuing Connected Transactions |
| "Independent Shareholder(s)" | Shareholder(s) other than the Chearavanont Shareholders and their respective associates |
| "Issue Price" | means, in respect of each Existing Convertible Preference Share, HK$0.3255, and in respect of each New Convertible Preference Share, HK$0.9000 |
| "Latest Practicable Date" | 17 June 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information included herein |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Master CPP Purchase Agreement" | the agreement dated 18 October 2010 made between CPP as purchaser and CPT as supplier for the purchase of certain products by the CPP Group |
| "Master CPP Supply Agreement" | the agreement dated 18 October 2010 made between CPP as supplier and OSIL as purchaser for the supply of certain products by the CPP Group |
| "Modern State" | Modern State Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Vendor holding 70.82% of the issued share capital of CPVL |

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| "MS Technical Assistance Services Agreement" | the technical assistance services agreement dated 1 January 2011 made between Modern State and CPVL, as amended by an addendum dated 30 May 2011, relating to the provision by Modern State of certain services to CPVL |
| "New Convertible Preference Shares" | the Series B Convertible Preference Shares of US$0.01 each in the capital of the Company to be allotted and issued, credited as fully paid, in satisfaction of part of the Consideration in accordance with the terms and conditions of the Acquisition Agreement |
| "New Ordinary Shares" | the 2,000,000,000 new Ordinary Shares to be allotted and issued, credited as fully paid, by the Company in satisfaction of part of the Consideration |
| "Option Agreement" | the option agreement dated 21 January 2011, entered into between CPG and the Company in relation to the option granted by CPG to the Company to require CPG to sell or procure the sale of an aggregate of 70.82% of the total issued share capital of CPVL |
| "Ordinary Share(s)" | ordinary shares of US$0.01 each in the share capital of the Company |
| "OSIL" | Orient Success International Limited, a company incorporated in the British Virgin Islands with limited liability |
| "PRC" | the People's Republic of China excluding, for the purpose of this circular, Hong Kong and the Macau Special Administrative Region |
| "Public Float Requirement" | the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Ordinary Shares which are listed on the Stock Exchange shall be held by the public for the purpose of the Listing Rules |
| "Revised CCT Agreements" | the Revised Master CPP Supply Agreement and the Revised Master CPP Purchase Agreement |
| "Revised Master CPP Purchase Agreement" | the agreement dated 30 May 2011 made between CPP as purchaser and CPT as supplier for the purchase from CPT and/or any of its related entities raw materials, machinery and equipment, promotional products, breed and farm livestock and aqua stock, meats and other items required for the production and sale of animal and aqua feed products, farm and food products and chlortetracycline products by the CPP Group which the CPP Group may require in the normal course of business and which CPT and/or any of its related entities may be able to supply |

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| "Revised Master CPP Supply Agreement" | the agreement dated 30 May 2011 made between CPP as supplier and OSIL as purchaser for the supply of feed-related, farm-related and food-related products such as animal feed, chlortetracycline, animal drugs and feed raw materials, breeding and farming livestock, and processed meats and food products produced or procured by the CPP Group to any related entity designated by OSIL, which may be required by such entity and which the CPP Group may be able to supply |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "SGM" | a special general meeting of the Company to be held to consider and, if thought fit, approve, among other things, the Acquisition and the transactions contemplated thereunder, and the Continuing Connected Transactions |
| "Shareholder(s)" | holder(s) of Ordinary Shares from time to time |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Trading Day(s)" | means any day(s) on which the Stock Exchange is open for the business of dealing in securities |
| "Target Group" | Modern State and CPVL |
| "US$" | United States dollars, the lawful currency of United States |
| "Vendor" | CPG Overseas Company Limited, a company incorporated under the laws of Hong Kong which is a direct wholly-owned subsidiary of CPG |
| "VND" | Vietnam Dong, the lawful currency of Vietnam |

**Note: For the purpose of this Circular, the following exchange rates have in general been used for the conversion of US$ into HK$ and US$ into VND for indication only:*

*US$1.00: HK$7.8*

*US$1.00:VND19,500*

# C.P. POKPHAND CO. LTD.

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

*Executive Directors:*
Mr. Dhanin Chearavanont
Mr. Thanakorn Seriburi
Mr. Soopakij Chearavanont
Mr. Anan Athigapanich
Mr. Damrongdej Chalongphuntarat
Mr. Bai Shanlin
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

*Registered office:*
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

*Principal office in Hong Kong:*
21st Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

21 June 2011

*To the Shareholders*

Dear Sirs,

**(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE INTEREST IN MODERN STATE INVESTMENTS LIMITED**
**(2) INCREASE IN AUTHORISED SHARE CAPITAL**
**(3) AMENDMENTS TO BYE-LAWS**
**(4) ISSUE OF NEW CONVERTIBLE PREFERENCE SHARES**
**(5) SPECIFIC MANDATE FOR THE ISSUE OF NEW ORDINARY SHARES, NEW CONVERTIBLE PREFERENCE SHARES AND CPS CONVERSION SHARES**
**AND**
**(6) CONTINUING CONNECTED TRANSACTIONS**

## A. INTRODUCTION

Reference is made to the announcement of the Company dated 30 May 2011 in relation to the Acquisition Agreement entered into between the Company and the Vendor in relation to the intended acquisition (through the acquisition of the entire interest in Modern State) of the 70.82% interest in CPVL by the Company.

The Acquisition (including the issue of the New Ordinary Shares and the New Convertible Preference Shares in satisfaction of the Consideration) constitutes a major and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules.

The Company is a leading feed producer in China controlling 78 feed mills across 28 provinces and municipalities in China. CPVL is a fully integrated livestock and aquaculture company whose primary operations are in Vietnam. CPVL's business spans across raw material procurement for livestock and feed businesses, feed manufacturing, breeding and farming of livestock and aquatic animals, distribution of feed products, processing of raw meats, and value-added manufacturing of food products.

Vietnam has a young and expanding population. According to the CIA World Fact Book, Vietnam is expected to have a population of over 90 million by mid 2011 with a median age of 27.8 years.[1] Total meat consumption per capita in Vietnam is 40.7kg in 2007, compared to 28.3kg in Thailand, 122.8kg in United States and 53.5kg in China, according to FAO[2].

For feed production, the Target Group currently has 4 livestock feed mills with a capacity of approximately 2.26 million tons per year and 3 aquatic feed mills with a capacity of approximately 610,000 tons per year.

For livestock farming business, the Target Group currently has 40 management branches and approximately 2,300 livestock farms of which 2,290 livestock farms are operated via contract farming, which helps the rapid business expansion. For aquatic farming business, the Target Group currently operates 6 shrimp farms/hatcheries and 4 fish farms.

For food business, the Target Group currently has one chicken food processing plant with two main production lines – meat processing line with capacity of approximately 8,760 tons per year and sausage production line with capacity of approximately 3,120 tons per year – and a cold storage for aqua products with a current capacity of 3,000 tons per year.

The current authorised share capital of the Company is US$500,000,000 divided into 30,000,000,000 Ordinary Shares of US$0.01 each and 20,000,000,000 Existing Convertible Preference Shares of US$0.01 each, of which 14,987,835,710 Ordinary Shares and 1,135,916,667 Existing Convertible Preference Shares are in issue and are fully paid or credited as fully paid. In order to satisfy the issue of the New Ordinary Shares, the New Convertible Preference Shares and the CPS Conversion Shares, the Directors propose to increase the authorised share capital of the Company from US$500,000,000 divided into 30,000,000,000 Ordinary Shares and 20,000,000,000 Existing Convertible Preference Shares to US$600,000,000 divided into 36,000,000,000 Ordinary Shares, 20,000,000,000 Existing Convertible Preference Shares and 4,000,000,000 New Convertible Preference Shares by the creation of 6,000,000,000 new Ordinary Shares and 4,000,000,000 New Convertible Preference Shares. The increase in authorised share capital of the Company and the creation of the New Convertible Preference Shares are conditional upon the approval of the Shareholders by way of special resolutions at the SGM.

1 https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html

2 Food and Agriculture Organization of the United Nations (FAO) 2010, Livestock and Fish Primary Equivalent, 02 June 2010, FAOSTAT on-line statistical service, FAO, Rome, viewed 1st November, 2010, http://faostat.fao.org/site/291/default.aspx

To provide for the rights, privileges and restrictions of the New Convertible Preference Shares in the Bye-laws, a special resolution will be proposed at the SGM to amend the Bye-laws. Details of the proposed amendments to the Bye-laws are set out in the notice of SGM. The amendments of the Bye-laws will be conditional upon the approval of the Shareholders by way of a special resolution at the SGM.

The transactions under the Discloseable CCT Agreements (namely the CPG Technical Assistance Services Agreement and the MS Technical Assistance Services Agreement), being agreements previously entered into by CPVL and CPG/Modern State in connection with the provision of technical assistance services by CPG/Modern State to CPVL will amount to continuing connected transactions of the Company following completion of the Acquisition. The Company has, in conjunction with the Acquisition Agreement, also entered into the Revised CCT Agreements (namely the Revised Master CPP Supply Agreement and the Revised Master CPP Purchase Agreement) in order to replace the previous Master CPP Supply Agreement and the previous Master CPP Purchase Agreement as necessitated by the inclusion of CPVL and its business in the CPP Group upon completion of the Acquisition.

Mr. Ma Chiu Cheung, Andrew, Mr. Sombat Deo-isres and Mr. Sakda Thanitcul, being all the independent non-executive Directors of the Company, have been appointed by the Board to serve as members of the Independent Board Committee to advise and make recommendation to the Independent Shareholders as to how to vote at the SGM on the resolution regarding the Acquisition, the Continuing Connected Transactions and the transactions contemplated thereunder.

CIMB Securities (HK) Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Acquisition, and the Continuing Connected Transactions and the relevant annual caps, are fair and reasonable on normal commercial terms, in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole.

The purpose of this circular is to provide you with, among other things, further information regarding the Acquisition and the Continuing Connected Transactions, to set out the advice from CIMB Securities (HK) Limited to the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Acquisition and the Continuing Connected Transactions and to give notice of the SGM.

## B. THE ACQUISITION AGREEMENT

On 30 May 2011, the Company and the Vendor entered into the Acquisition Agreement. A summary of the principal terms of the Acquisition Agreement is set out below.

**Date**

30 May 2011

**Parties**

Vendor: CPG Overseas Company Limited

Purchaser: The Company

**Assets to be acquired**

CPP has conditionally agreed to acquire, and the Vendor has conditionally agreed to procure the sale of, the entire issued share capital of Modern State. The principal asset of Modern State is its holding of a 70.82% shareholding interest in CPVL.

**Consideration and payment**

The total consideration for the Acquisition is HK$4,735.0 million (approximately US$607.0 million) and will be satisfied by the issue to the Vendor (or as it may direct), credited as fully paid at the issue price of HK$0.90 each, of a total of 3,261,077,748 New Convertible Preference Shares and 2,000,000,000 New Ordinary Shares.

**Basis of Consideration**

The Consideration was arrived at after arm's length negotiations among the parties by using 12.5 times the sum of (a) 70.82% of the audited net profit after tax of CPVL for the year ended 31 December 2010 and (b) the Audited 2010 Technical Service Fee Adjustment.

**Conditions precedent**

Completion of the Acquisition is subject to, among other matters, the following conditions having been fulfilled or waived under the Acquisition Agreement (as the case may be):

(i) the approval of the Independent Shareholders being obtained in respect of the Acquisition Agreement and the Revised CCT Agreements (and the transactions contemplated thereunder respectively), including without limitation, the issue and allotment of the New Ordinary Shares and the New Convertible Preference Shares, (i.e. Series B Convertible Preference Shares) and (upon conversion of the New Convertible Preference Shares) the CPS Conversion Shares;

(ii) the increase in the authorised share capital of CPP from the current US$500,000,000 divided into 30,000,000,000 Ordinary Shares and 20,000,000,000 Existing Convertible Preference Shares to US$600,000,000 divided into 36,000,000,000 Ordinary Shares, 20,000,000,000 Existing Convertible Preference Shares (which shall be redesignated as "Series A Convertible Preference Shares") and 4,000,000,000 New Convertible Preference Shares (i.e. Series B Convertible Preference Shares) and the passing of a special resolution at the SGM for the alteration of the Bye-laws to provide for, among other things, the rights, privileges and restrictions of the Series B Convertible Preference Shares;

(iii) the approval of the Listing Committee of the Stock Exchange being obtained for the listing of and permission to deal in the New Ordinary Shares and the CPS Conversion Shares on the Stock Exchange;

(iv) the completion of the legal and financial due diligence review on the Target Group to the reasonable satisfaction of CPP;

(v) the creation of the New Convertible Preference Shares being approved by the holders of the Existing Convertible Preference Shares;

(vi) CPP being satisfied that any or all other material approvals, consents and waivers required by any applicable law or rules or regulations, or by governmental, administrative or regulatory bodies necessary or otherwise appropriate, for the parties to consummate the transactions contemplated by the Acquisition Agreement, have been obtained; and

(vii) authorisations and consents required from certain lending banks of the Target Group for or in connection with the execution, validity and performance of the Acquisition Agreement (including in particular the ownership change of Modern State as contemplated under the Acquisition Agreement) have been obtained.

**Completion**

Completion of the Acquisition Agreement is expected to take place no later than 31 December 2011, or such later date as the parties to the Acquisition Agreement may agree in writing.

Upon Completion, Modern State will become a wholly-owned subsidiary of the CPP Group and the financial statements of Modern State and CPVL will be consolidated into the Company's consolidated financial statements.

## C. THE NEW CONVERTIBLE PREFERENCE SHARES

To satisfy part of the Consideration, the Company will allot and issue to the Vendor or its designee, credited as fully paid, 3,261,077,748 New Convertible Preference Shares.

A summary of the principal terms of the New Convertible Preference Shares is set out below.

| | |
|---|---|
| Par value | US$0.01 each. |
| Issue price | HK$0.90 per New Convertible Preference Share. |
| Conversion period | Any time after issue, provided that the conversion right will be suspended to the extent that it would result in the Company failing to comply with any Public Float Requirement under the Listing Rules applicable to the Company. |
| Conversion ratio | Each New Convertible Preference Share shall be convertible into such number of Ordinary Share(s) being one (1) multiplied by the conversion rate. The conversion rate shall be determined by dividing the issue price of each New Convertible Preference Share by the conversion price. |
| Conversion price | The initial conversion price is the Issue Price. The conversion price is subject to adjustment upon the occurrence of certain prescribed events (including consolidation, subdivision or reclassification of shares, capitalization of profits or reserves, capital distributions, rights issues of Ordinary Shares or options over Ordinary Shares, and issues of convertible securities with consideration at less than the conversion price), but provided that the conversion price shall not be less than the then subsisting nominal value of Ordinary Share into which such New Convertible Preference Share is being converted. If any adjustment is required to be made to the conversion price, an announcement will be made by the Company. |
| Dividends and distributions | Each New Convertible Preference Share shall confer on the holder thereof the right to receive dividend pari passu with holders of Ordinary Shares on the basis of the number of Ordinary Share(s) into which each New Convertible Preference Share may be converted and on an as converted basis. |
| Voting rights | The holder(s) of New Convertible Preference Shares shall not have the right to attend and vote at a general meeting (except a general meeting for winding-up of the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of such holder(s) or vary the restrictions to which the New Convertible Preference Shares are subject). |
| Ranking | The New Convertible Preference Shares shall rank pari passu with the Existing Convertible Preference Shares, and the following provisions shall apply to both the Existing Convertible Preference Shares and the New Convertible Preference Shares. On a |

distribution of assets on liquidation, winding-up or dissolution of the Company, the assets and funds of the Company available for distribution among the members of the Company shall, subject to applicable laws, be applied in the following priority:

(i) firstly, in paying to the holders of the Convertible Preference Shares, pari passu as between themselves by reference to the aggregate nominal amounts of the Convertible Preference Shares held by them respectively, an amount equal to, respectively, the aggregate of the issue price of all of the Convertible Preference Shares held by them respectively; and

(ii) secondly, 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 or other than any shares which are not entitled to participate in the distribution of such assets, by reference to the aggregate nominal amounts 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 amounts of the shares held by them respectively.

Transferability — The New Convertible Preference Shares shall be transferable without any restriction by the holders thereof.

Redemption — The New Convertible Preference Shares shall be non-redeemable by the Company or the holders thereof.

Listing — No application will be made for the listing of the New Convertible Preference Shares on the Stock Exchange or any other stock exchange.

**Issue Price**

The issue price of HK$0.9 for each of the New Ordinary Shares and New Convertible Preference Shares to be issued as consideration for the Acquisition was determined after arm's length negotiations between the parties to the Acquisition Agreement and represents:

(i) a discount of approximately 3.23% to the closing price of HK$0.930 per Ordinary Share as quoted on the Stock Exchange on the last trading day before the date of the Acquisition Agreement;

(ii) a discount of approximately 4.05% to the average of the closing prices of approximately HK$0.938 per Ordinary Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the last trading day before the date of the Acquisition Agreement;

(iii) a discount of approximately 9.73% to the average of the closing prices of approximately HK$0.997 per Ordinary Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the last trading day before the date of the Acquisition Agreement;

(iv) a discount of approximately 3.02% to the average of the closing prices of approximately HK$0.928 per Ordinary Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the last trading day before the date of the Acquisition Agreement; and

(v) a premium of approximately 275% of the audited total net assets of the CPP Shares attributable to the Shareholders as at 31 December 2010 and approximately HK$0.24 per CPP Share.

The issue price of HK$0.9 per New Ordinary Share and per New Convertible Preference Share represents a 14.3% discount to the closing price as at 20 January 2011 (being the last trading day before the Company's announcement on 21 January 2011 in respect of the Option Agreement).

## D. INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the Company's authorised share capital was US$500,000,000 divided into 30,000,000,000 Ordinary Shares of US$0.01 each and 20,000,000,000 Existing Convertible Preference Shares of US$0.01 each, of which 14,987,835,710 Ordinary Shares and 1,135,916,667 Existing Convertible Preference Shares are in issue and are fully paid or credited as fully paid. In order to satisfy the issue of the New Ordinary Shares, the New Convertible Preference Shares and the CPS Conversion Shares issuable upon conversion of the New Convertible Preference Shares, the Directors propose to increase the authorised share capital of the Company from US$500,000,000 divided into 30,000,000,000 Ordinary Shares and 20,000,000,000 Existing Convertible Preference Shares to US$600,000,000 divided into 36,000,000,000 Ordinary Shares, 20,000,000,000 Existing Convertible Preference Shares and 4,000,000,000 New Convertible Preference Shares by the creation of 6,000,000,000 new Ordinary Shares and 4,000,000,000 New Convertible Preference Shares. The increase in authorised share capital of the Company and the creation of the New Convertible Preference Shares are conditional upon the approval of the Shareholders by way of special resolutions at the SGM.

## E. AMENDMENTS TO THE BYE-LAWS

To increase the authorised share capital of the Company and make provisions for the privileges and restrictions of the New Convertible Preference Shares in the Bye-laws, a special resolution will be proposed at the SGM to amend the Bye-laws.

## F. SPECIAL MANDATE AND APPLICATION FOR LISTING

The issue of the New Ordinary Shares, the New Convertible Preference Shares and the CPS Conversion Shares, issuable upon conversion of the New Convertible Preference Shares, will be made under a special mandate which the Directors will seek from the Shareholders at the SGM.

An application will be made to the Listing Committee of the Stock Exchange for the listing of the New Ordinary Shares and CPS Conversion Shares to be issued on conversion of the New Convertible Preference Shares.

## G. CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company had in issue 14,987,835,710 Ordinary Shares and 1,135,916,667 Existing Convertible Preference Shares. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date and; (ii) immediately after Completion and the allotment and issue of the New Convertible Preference Shares and the New Ordinary Shares; (iii) immediately after full conversion of the New Convertible Preference Shares, assuming no further CPP Shares will be issued or repurchased by the Company in the meantime; and (iv) immediately after full conversion of both the Existing Convertible Preference Shares and the New Convertible Preference Shares, assuming no other CPP Shares will be issued and no CPP Shares will be repurchased by the Company in the meantime:

| Name of Shareholders | Shareholding structure as at the Latest Practicable Date | | | Shareholding structure immediately after Completion and allotment and issue of the New Convertible Preference Shares and the New Ordinary Shares | | | | Shareholding structure immediately after full conversion of the New Convertible Preference Shares | | | | Shareholding structure immediately after full conversion of the Existing Convertible Preference Shares and the New Convertible Preference Shares | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Ordinary Shares | % | No. of Existing Convertible Preference Shares | No. of Ordinary Shares | % | No. of Existing Convertible Preference Shares | No. of New Convertible Preference Shares | No. of Ordinary Shares | % | No. of Existing Convertible Preference Shares | No. of New Convertible Preference Shares | No. of Ordinary Shares | % | No. of Existing Convertible Preference Shares | No. of New Convertible Preference Shares |
| OSIL | 8,745,891,089 | 58.35% | 0 | 10,745,891,089 | 63.26% | 0 | 3,261,077,748 | 14,006,968,837 | 69.17% | 0 | 0 | 14,006,968,837 | 65.50% | 0 | 0 |
| CPI Holding Co., Ltd. | 1,004,014,695 | 6.70% | 0 | 1,004,014,695 | 5.91% | 0 | 0 | 1,004,014,695 | 4.96% | 0 | 0 | 1,004,014,695 | 4.70% | 0 | 0 |
| Worth Access Trading Limited | 481,250,000 | 3.21% | 0 | 481,250,000 | 2.83% | 0 | 0 | 481,250,000 | 2.38% | 0 | 0 | 481,250,000 | 2.25% | 0 | 0 |
| Chearavanont Shareholders (directly held) | 843,750 | 0.01% | 0 | 843,750 | 0.00% | 0 | 0 | 843,750 | 0.00% | 0 | 0 | 843,750 | 0.00% | 0 | 0 |
| Chearavanont Shareholders (directly and indirectly held, in aggregate) | 10,231,999,534 | 68.27% | 0 | 12,231,999,534 | 72.00% | 0 | 3,261,077,748 | 15,493,077,282 | 76.51% | 0 | 0 | 15,493,077,282 | 72.45% | 0 | 0 |
| Public Shareholders | 4,755,836,176 | 31.73% | 1,135,916,667 | 4,755,836,176 | 28.00% | 1,135,916,667 | 0 | 4,755,836,176 | 23.49% | 1,135,916,667 | 0 | 5,891,752,843 | 27.55% *(Note 2)* | 0 | 0 |
| **Total** | **14,987,835,710** | **100%** | **1,135,916,667** | **16,987,835,710** | **100%** | **1,135,916,667** | **3,261,077,748** | **20,248,913,458** | **100%** | **1,135,916,667** | **0** | **21,384,830,125** | **100%** | **0** | **0** |

*Notes:*

1. The above chart does not include a total of 3,300,540,621 Existing Convertible Preference Shares which will be issued and allotted to OSIL upon full repayment of outstanding advances from the CPP Group to OSIL, its subsidiaries and jointly-controlled entities.

2. As at the Latest Practicable Date, all Existing Convertible Preference Shares were held by an independent third party which, in the event of full conversion of the Existing Convertible Preference Shares and the New Convertible Preference Shares, will hold approximately 10.6% of the issued Ordinary Shares and will therefore cease to be a public Shareholder for the purposes of the Listing Rules. In that event, public Shareholders of the Company will hold 3,620,836,176 Ordinary Shares representing approximately 16.93% of the issued Ordinary Shares.

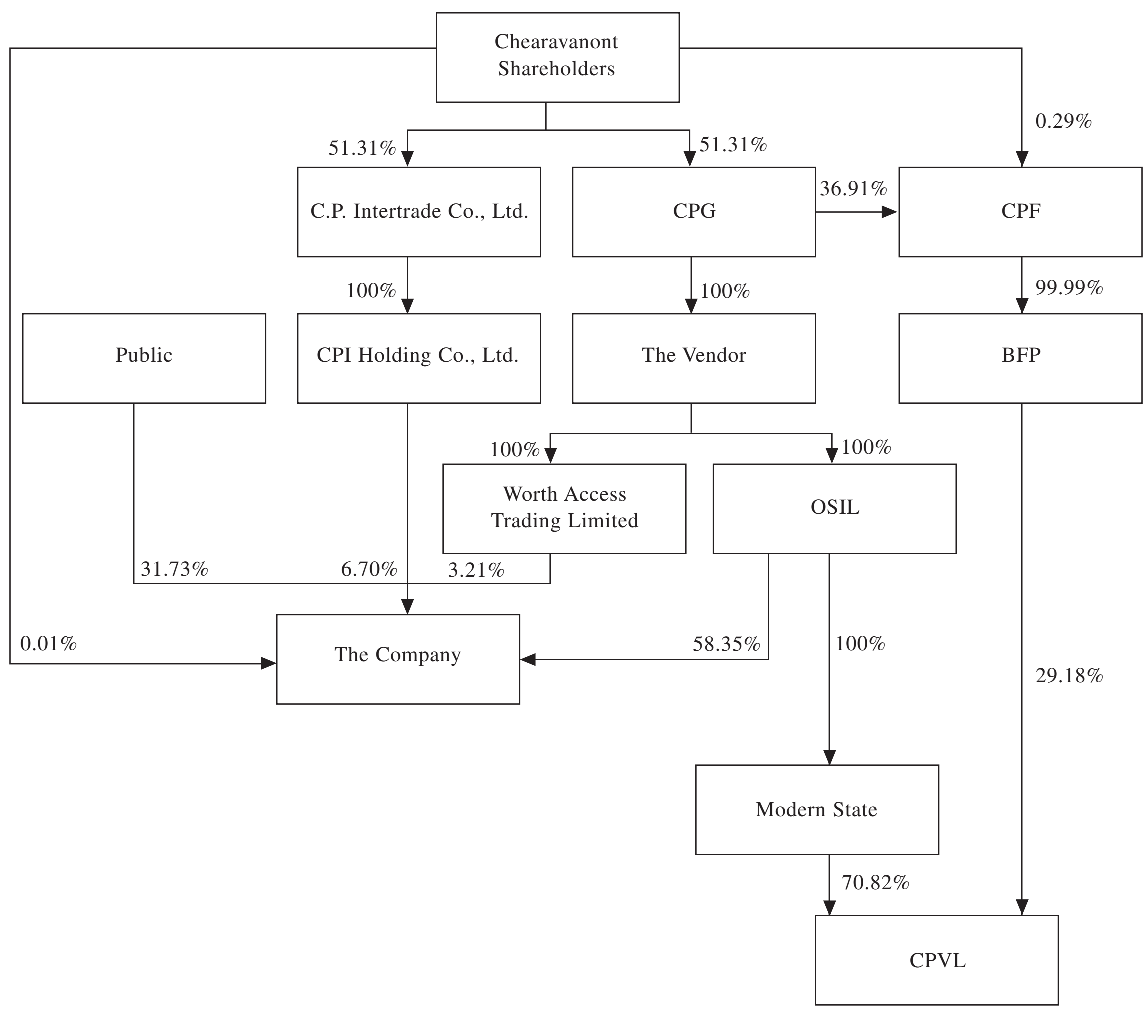
The Board anticipates that the issue and conversion of the New Convertible Preference Shares will not result in a change in control of the Company.

## H. STRUCTURE CHART PRIOR TO/POST ACQUISITION

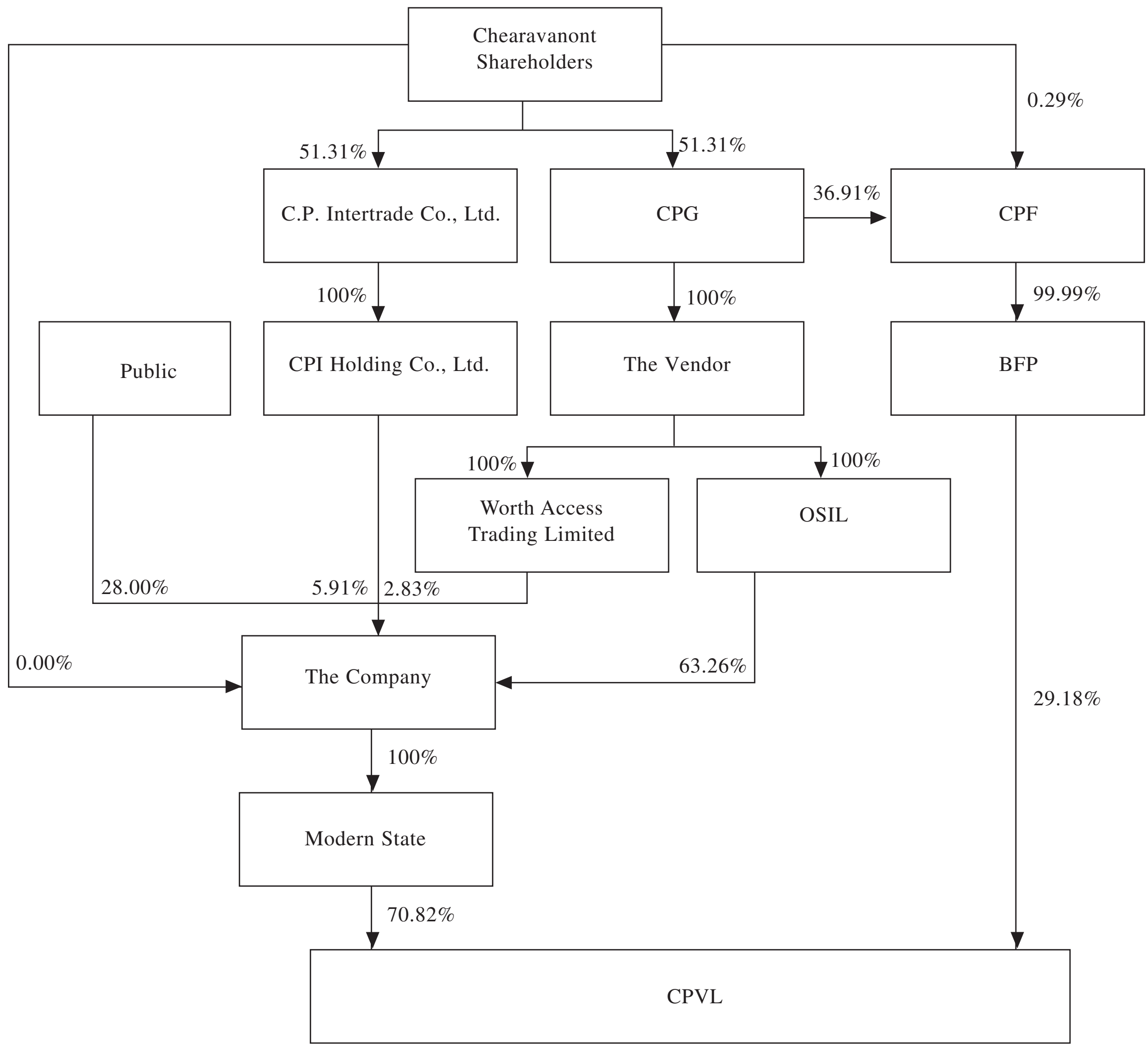
On 3 June 2011, Worth Access Trading Limited transferred its entire shareholding interest in Modern State to OSIL. Both Worth Access Trading Limited and OSIL are wholly owned subsidiaries of CPG.

The following simplified diagrams illustrate the corporate and shareholding structure (in terms of ordinary shares) of the CPP Group (a) as at the Latest Practicable Date; and (b) immediately after completion of the Acquisition (assuming none of the Convertible Preference Shares are converted):-

(a) As at the Latest Practicable Date:



(b) Immediately after completion of the Acquisition (assuming (i) none of the Convertible Preference Shares are converted and (ii) all of the New Ordinary Shares to be issued by way of payment of part of the Consideration are to be issued to OSIL):



## I. CONTINUING CONNECTED TRANSACTIONS

### (I) DISCLOSEABLE CCT AGREEMENTS

Transactions under the following Discloseable CCT Agreements will amount to connected transactions of the Company for the purposes of the Listing Rules upon completion of the Acquisition:

#### 1. CPG TECHNICAL ASSISTANCE SERVICES AGREEMENT

**Date**

19 August 2009, as amended on 1 January 2011 and further amended on 30 May 2011

**Parties**

- CPG
- CPVL

**Subject**

Provision of certain technical assistance services by CPG to CPP Group (through CPVL) in connection with CPVL's business, including, amongst others:

- feed formulation, execution of feed manufacturing, livestock and aquaculture farming, human food production and the quality control and maintenance of CPVL's product quality standards
- training and instruction of technical personnel
- advice and assistance in the selection of raw materials, machinery and equipment
- engineering advice in the design and construction of production facilities
- on-site service and training

**Service fee**

Equivalent to 1.5% of the net sales value of the products manufactured, produced and/or sold by CPVL in Vietnam or exported from Vietnam, exclusive of value added tax chargeable on the sale of such products under applicable Vietnam laws and regulations, commercial discounts, rebates and returned goods.

**Payment terms**

The service fee is payable, by reference to the sales invoices in each six month period, by the last day of the first month in the next six month period. Payments are to be made by bank transfer in US$, at the exchange rate for selling US$ applied on the payment date.

**Term**

Subject to and upon completion of the Acquisition, the CPG Technical Assistance Services Agreement will remain in force up to and including 31 December 2013. The CPG Technical Assistance Services Agreement will be automatically extended for another period of three years at the expiry date of the term, or any extended term, unless (among other things) shareholders' approval by any direct or indirect holding company of CPVL is required for such extension under any applicable regulatory requirements and such shareholders' approval has not been obtained prior to such extension.

**Annual cap**

The annual cap for the service fee to be paid under the CPG Technical Assistance Services Agreement for each of the financial years ending 31 December 2011, 2012 and 2013 respectively is US$22.0 million (approximately HK$171.6 million), US$31.0 million (approximately HK$241.8 million) and US$37.7 million (approximately HK$294.1 million). As the CPG Technical Assistance Services Agreement is expected to become effective some time in the course of the financial year ending 31 December 2011, the annual cap for the financial year ending 31 December 2011 will be the prorated portion of the full amount proposed for that year representing the remaining part of the financial year calculated on a day-to-day basis from the date on which the CPG Technical Assistance Services Agreement becomes effective until 31 December 2011.

The annual cap has been determined by reference to net sales value of the products manufactured, produced and/or sold by CPVL in the year ended 31 December 2010 and allowances for growth in the business of CPVL during the current financial year and in 2012 and 2013.

**2. MS TECHNICAL ASSISTANCE SERVICES AGREEMENT**

**Date**

1 January 2011, as amended on 30 May 2011

**Parties**

- Modern State
- CPVL

**Subject**

Provision of certain technical assistance services within the CPP Group by a wholly owned subsidiary, Modern State, to a non-wholly owned subsidiary, CPVL, in connection with CPVL's business, including, amongst others:

- advice and assistance in the accounting and financial management, investment control, internal auditing and new accounting techniques
- advice and assistance in personnel management and administration
- advice and assistance in marketing, including training and selection of sales staff

**Service fee**

Equivalent to 1.5% of the net sales value of the products manufactured, produced and/or sold by CPVL in Vietnam or exported from Vietnam, exclusive of value added tax chargeable on the sale of such products under applicable Vietnam laws and regulations, commercial discounts, rebates and returned goods.

**Payment terms**

The service fee is payable, by reference to the sales invoices in each six month period, by the last day of the first month in the next six month period. Payments are to be made by bank transfer in US$, at the exchange rate for selling US$ applied on the payment date.

**Term**

Subject to and upon completion of the Acquisition, the MS Technical Assistance Services Agreement will remain in force up to and including 31 December 2013. The MS Technical Assistance Services Agreement will be automatically extended for another period of three years at the expiry date of the term, or any extended term, unless (among other things) shareholders' approval by any direct or indirect holding company of CPVL is required for such extension under any applicable regulatory requirements and such shareholders' approval has not been obtained prior to such extension.

**Annual cap**

The annual cap for the service fee to be paid under the MS Technical Assistance Services Agreement for each of the financial years ending 31 December 2011, 2012 and 2013 respectively is US$22.0 million (approximately HK$171.6 million), US$31.0 million (approximately HK$241.8 million) and US$37.7 million (approximately HK$294.1 million). As the MS Technical Assistance Services Agreement is expected to become effective some time in the course of the financial year ending 31 December 2011, the annual cap for the financial year ending 31 December 2011 will be the prorated portion of the full amount proposed for that year representing the remaining part of the financial year calculated on a day-to-day basis from the date on which the MS Technical Assistance Services Agreement becomes effective until 31 December 2011.

The annual cap has been determined by reference to net sales value of the products manufactured, produced and/or sold by CPVL in the year ended 31 December 2010 and allowances for growth in the business of CPVL during the current financial year and in 2012 and 2013.

**(II) REVISED CCT AGREEMENTS**

The following Revised CCT Agreements have been entered into at the same time as the Acquisition Agreement in order to replace, effective upon completion of the Acquisition, the Master CPP Supply Agreement and the Master CPP Purchase Agreement entered into on 18 October 2010, which were (together with the related annual caps) approved by the Independent Shareholders, and became effective, on 24 November 2010. Their replacement has been necessitated by the inclusion of CPVL and its business in the CPP Group upon completion of the Acquisition.

**1. REVISED MASTER CPP SUPPLY AGREEMENT**

**(a) Date**

30 May 2011

**(b) Parties**

(i) The Company (as supplier)

(ii) OSIL (as purchaser)

**(c) Subject matter**

Supply of various feed-related, farm-related and food-related products produced or procured by the CPP Group, such as animal feed, chlortetracycline, animal drugs and feed raw materials, breeding and farming livestock, and processed meats and food products to any related entity designated by OSIL, which may be required by such entity and which the CPP Group may be able to supply.

**(d) Price**

To be determined by reference to the prevailing market prices of, the cost of marketing (if any) and demand for the CPP Supply Products in the PRC and Vietnam, and the sale prices for such products to be sold by the CPP Group to any related entity designated by OSIL shall be no less favourable than those available to the customers of the CPP Group which are independent third parties.

**(e) Payment terms**

Credit term of up to 60 days from delivery or generally accepted market terms from time to time. Payment for the supply shall be made by telegraphic transfer, bank issued bills payable within three months or other payment methods acceptable in the PRC or Vietnam.

**(f) Term**

The Revised Master CPP Supply Agreement shall take effect from the date of completion of the Acquisition and continue until 31 December 2013. The Revised Master CPP Supply Agreement is subject to the approval of the Independent Shareholders.

**(g) Annual cap**

The proposed annual cap for the supply of the CPP Supply Products by the CPP Group to OSIL and/or its related entities for each of the financial years ending 31 December 2011, 31 December 2012 and 31 December 2013 is US$984.3 million (approximately HK$7,677.5 million), US$1,479.3 million (approximately HK$11,538.5 million) and US$1,885.7 million (approximately HK$14,708.5 million), respectively. Except for such increase in the cap due to the supply of the CPP Supply Products in Vietnam resulting from the acquisition of Modern State and CPVL pursuant to the Acquisition and the increase in the cap due to the acquisition of C.P. Aquaculture (Yangjiang) Co., Ltd. and the leasing of an additional feedmill as announced on 25 May 2011, these caps for 2011 and 2012 are the same as the caps for the corresponding years for transactions under the Master CPP Supply Agreement, which were previously approved by the Independent Shareholders. Upon its becoming effective, the Revised Master CPP Supply Agreement will replace the Master CPP Supply Agreement. As the Revised Master CPP Supply Agreement is expected to become effective some time in the course of the financial year ending 31 December 2011, the annual cap for the financial year ending 31 December 2011 will be the prorated portion of the full amount proposed for that year representing the remaining part of the financial year calculated on a day-to-day basis from the date on which the Revised Master CPP Supply Agreement becomes effective until 31 December 2011.

The proposed annual caps have been determined by reference to: (i) the value of the historical sales of the CPP Supply Products by the CPP Group to OSIL and/or its related entities for the four months ended 30 April 2011; (ii) the prevailing market prices of the CPP Supply Products; (iii) allowances for possible price increases in line with consumer prices in the PRC and Vietnam generally and volume growth in the future; (iv) the expected increase in demand for the CPP Supply Products during the relevant period due to the expected expansion of the scope of products and the production capacity of the CPP Group; (v) internal projection of the expected sales volume of the CPP Supply Products; (vi) the subject matter of the Revised Master CPP Supply Agreement being expanded on account of the products of CPVL (which following completion of the Acquisition will become part of the CPP Group) becoming part of "CPP Supply Products"; and (vii) the acquisition of C.P. Aquaculture (Yangjiang) Co., Ltd. and the leasing of an additional feedmill as announced on 25 May 2011, respectively.

## 2. REVISED MASTER CPP PURCHASE AGREEMENT

### (a) Date

30 May 2011

### (b) Parties

(i) The Company (as purchaser)

(ii) CPT (as supplier)

### (c) Subject matter

Purchase of raw materials, machinery and equipment, promotional products, packaging materials, breed and farm livestock and aqua stock, meats and other items required for the production and sale of animal and aqua feed, farm and food products and chlortetracycline products by the CPP Group in the normal course of business and which CPT and/or its related entities may be able to supply.

**(d) Price**

To be determined on the basis of arm's length negotiations and the purchase prices of the CPP Purchase Products shall not be higher than the prevailing market prices in the PRC or Vietnam, and shall be no less favourable than those available to the CPP Group from suppliers which are independent third parties.

**(e) Payment terms**

Credit term of up to 60 days from delivery or generally accepted market terms from time to time. Payment for the purchases shall be made by telegraphic transfer, bank issued bills payable within three months or other payment methods acceptable in the PRC or Vietnam.

**(f) Term**

The Revised Master CPP Purchase Agreement shall take effect from the date of completion of the Acquisition and continue until 31 December 2013. The Revised Master CPP Purchase Agreement is subject to the approval of the Independent Shareholders.

**(g) Annual caps**

The proposed annual cap for the purchase of the CPP Purchase Products by the CPP Group from CPT and/or its related entities for each of the financial years ending 31 December 2011, 31 December 2012 and 31 December 2013 is US$414.2 million (approximately HK$3,230.8 million), US$479.0 million (approximately HK$3,736.2 million) and US$558.9 million (approximately HK$4,359.4 million), respectively. Except for such increase in the caps due to the purchase of the CPP Purchase Products in Vietnam resulting from the acquisition of Modern State and CPVL pursuant to the Acquisition and the increase in the cap due to the acquisition of C.P. Aquaculture (Yangjiang) Co., Ltd. and the leasing of an additional feedmill as announced on 25 May 2011, these caps for 2011 and 2012 are the same as the caps for the corresponding years for the transactions under the Master CPP Purchase Agreement, which were previously approved by the Independent Shareholders. Upon its becoming effective, the Revised Master CPP Purchase Agreement will replace the Master CPP Purchase Agreement. As the Revised Master CPP Purchase Agreement is expected to become effective some time in the course of the financial year ending 31 December 2011, the annual cap for the financial year ending 31 December 2011 will be the prorated portion of the full amount proposed for that year representing the remaining part of the financial year calculated on a day-to-day basis from the date on which the Revised Master CPP Purchase Agreement becomes effective until 31 December 2011.

The proposed annual caps have been determined by reference to: (i) the value of the historical purchases of CPP Purchase Products by the CPP Group from CPT and/or its related entities for the four months ended 30 April 2011; (ii) internal projection of the expected purchase volume of the CPP Purchase Products; (iii) the prevailing market prices of the CPP Purchase Products; (iv) allowances for possible price increases in line with consumer prices in the PRC and Vietnam generally and volume growth in the future; (v) the expected increase in demand for the relevant products by the CPP Group (including, assuming completion of the Acquisition, CPVL) over the period due to potential growth of the production capacity of the CPP Group; (vi) the subject matter of the Revised Master CPP Purchase Agreement being expanded on account of the products required by CPVL (which following completion of the Acquisition will become part of the CPP Group) becoming part of "CPP Purchase Products"; and (vii) the acquisition of C.P. Aquaculture (Yangjiang) Co., Ltd. and the leasing of an additional feedmill as announced on 25 May 2011.

## J. PRINCIPAL BUSINESS OF THE CPP GROUP

The CPP Group is principally engaged in the operation of feedmills for the production and sale of feed products. Additionally, the CPP Group is involved in various other relatively smaller businesses, including the production and sale of chlortetracycline products, and through its jointly-controlled entities, in the manufacture and sale of motorcycles, the sale of Caterpillar machinery, and the manufacture and sale of carburetors and automobile accessories.

## K. INFORMATION ON THE TARGET GROUP

1. CPVL was established in Vietnam in 1993 and is a fully integrated livestock and aquaculture company. As a leader in the livestock and aquaculture business in Vietnam, CPVL is principally engaged in the following:

    (i) manufacturing and distributing animal feed;

    (ii) breeding and farming of livestock and aquatic animals; and

    (iii) processing and production of meat and food products.

CPVL's main products include (i) feed for swine, poultry, shrimp and fish, (ii) farming products, and (iii) food products, which accounted for approximately 56%, 39% and 5% respectively, of the total revenue of CPVL for the year ended 31 December 2010.

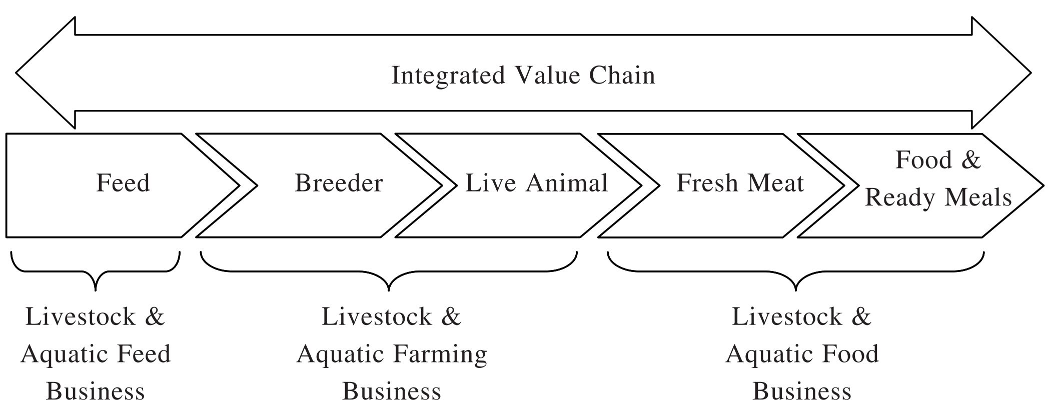
Set out below is a summary of key combined financial information of the Target Group for the two years ended 31 December 2010, which has been prepared in accordance with the accounting policies in compliance with IFRS and extracted from Appendix II of this circular:

| | **2009** | **2010** |
|---|---|---|
| | *US$ million* | *US$ million* |
| Revenue | 869.4 | 1,046.5 |
| Profit before tax | 73.7 | 60.9 |
| Profit after tax | 59.7 | 51.6 |

Based on the combined financial information of the Target Group as set out in Appendix II of this circular, the combined net assets value as at 31 December 2010 was approximately US$205.9 million. As CPVL was established by CPG as one of its co-founders, there was no original purchase cost of CPVL to the Vendor.

2. The Target Group is a fully integrated livestock and aquaculture company whose primary operation is in Vietnam. The Target Group's business spans across extended value chain of raw material procurement for livestock and aquatic feed business, feed manufacturing, breeding and farming of livestock and aquatic animals, distribution, processing of raw meats and value-added manufacturing of ready meals. The Target Group's main products include manufactured and processed feeds and products of chicken, swine, shrimp and fish. By utilizing its own brands to market its products, the Target Group is able to further differentiate itself from its competitors.

***Target Group's Integrated Value Chain***




The management of CPVL believes that its integrated value chain and diversified earning streams instill downside protection against systematic risks, including potential outbreak of diseases in particular parts of its business. Additionally, its well established nation-wide sales and distribution platform, supported by more than 1,300 sales agents, allow the Target Group to offer its products to customers throughout the country.

**Target Group Strategy**

The Target Group intends to adopt the following strategies:

- Maintain and continue to strengthen its integrated value chain business model that delivers high quality end products and diversified revenue streams

- Further expand its plant and facility capacities to capture growing customer demands and minimise potential production constraints

- Continue to refine and optimise its product portfolio to further enhance business performance

Target Group's management believes the aforementioned strategies will allow the Company to enjoy sustainable growth through market share increases along with overall demand growth for agricultural and consumer products both domestically in Vietnam and for the international export market.

**Target Group's Competitive Advantages**

With committed on-going support from Charoen Pokphand Group ("CP Group"), the Target Group enjoys certain advantages over its competitors that enable it to consistently deliver high-quality products to its customers.

1) *Stable procurement of high-quality raw materials at competitive prices*

   i) CP Group's centralised distribution centre in Bangkok collectively manages imported raw materials on behalf of its affiliates, including the Target Group. The resulting consolidated purchasing power combined with the negotiation skills and knowledge possessed by CP Group's purchasing experts within the Bangkok distribution center, offer the Target Group unparalleled access to high quality imported raw materials for its feed business.

   ii) CP Group's commodity experts analyze raw material price trends in anticipation of price fluctuations. The Target Group, based on inputs from these experts, maintains sufficient inventory buffer that help minimise raw material cost for its feed business.

   iii) The Target Group has developed an in-house raw material sourcing system designed to optimise domestic raw material procurement for its feed business.

2) *Production system incorporating advanced technology*

i) CPVL's computerised formulation and production systems ensure product quality throughout the production process. Sourced raw materials are randomly screened for quality assurance while production systems are regularly checked for its effectiveness and efficiency. Furthermore, production facilities are equipped with evaporative cooling systems which offer temperature controlled, hygienic and disease preventive environment for raising swine and poultry. CPVL's production process has been certified by the following:

- Good Manufacturing Practices (GMP), an award for quality approach to manufacturing
- Hazard Analysis and Critical Control Point (HACCP), a system focusing on prevention of food contamination
- ISO 9001:2000, product quality controlling system
- ISO 14000 and ISO 140001:2004, environment controlling system

3) *R&D capability*

i) CPVL is able to leverage upon CPG's R&D capabilities to enhance the competitiveness of its product lines across all businesses.

- On-going research into choice of raw material and formulation mix enables CPVL to improve feed conversion ratio ("FCR"). FCR is a measure of efficiency in converting feed mass into increased body mass. A lower FCR means less feed is consumed to increase animal body mass by the same weight. Management believes that the conversion ratio of CPVL's products is one of the lowest in Vietnam.
- A dedicated research team, comprising of industry leading scientists, selectively chooses and imports high quality great-grand parent livestock breeds of animals that are suitable for the domestic farming environment. By natural means, these chosen breeds translate into better quality breeds of grand-parent and parent livestock animals.
- The research team also develops wide variety of consumer foods in line with Vietnamese consumers' preference. Internal experimentation and testing ensure successful launch of prototypes before they reach the market.

4) *Chemical-free products safer for consumption*

i) The Target Group's emphasis on raising farm products by "natural means" ensures that its products are safe and controlled from disease.

- CPVL's swines are raised without the use of Beta-agronist which have been linked as a potential cause of various human diseases and thus its swine products are safer for consumption.

- CPVL does not use chemical additives to fight off bacteria in its shrimp. Instead CPVL's shrimps are raised with the use of pro-biotic bacteria which yields chemical-free shrimps that are safer for consumption.

**Target Group's Business Lines**

The Target Group's business can be broadly categorised into two business lines, namely livestock business and aquatic business. Below are detailed descriptions of the two business lines along with further business segment information in each.

*LIVESTOCK BUSINESS*

*(1) Livestock Feed Business*

The Target Group engages in the manufacture and distribution of feeds for various livestock animals including swine, broiler, layer, duck, and cattle. The Target Group not only has a nationwide feed production platform in Vietnam, but also an extensive distribution network throughout Vietnam which is further supported by more than 1,300 sale agents. For external sales, transportation and logistics from production plants to farmlands are arranged by buyers of livestock feeds themselves and thus the Target Group enjoys significant cost savings in transportation. In addition, sales are mainly transacted in cash, enhancing the Target Group's cashflow position.

The quality of livestock feed products are ensured at different stages of production via computerized formulation and production processes. The management believes that the Target Group's production system which is fully equipped with various quality control measures help its products to achieve one of the lowest feed conversion ratios in Vietnam.

CPVL currently has feed mill plants located in Dongnai, Tien Giang, Binh Doung, and Hanoi. This diverse production base allows the Target Group to enjoy lower distribution costs. As at 31 December 2010, CPVL has total livestock feed production capacity of 2.26 million tons per year with a three year average utilisation rate of more than 80%.

In order to meet growing feed demands in Vietnam, the Target Group is in the process of developing 2 new livestock feed mill plants located in Hai Doung and Binh Dinh with total capacity of 864,000 tons per year. These 2 plants are scheduled to commence operations in 2012 and 2013, respectively.

**Livestock Feed Capacity as of 31 December 2010**

| Plant | | Year fully operated | Annual Capacity |
|---|---|---|---|
| | | | *(tons per year)* |
| 1) | Dongnai feed mill (H/O) | 1993 | 540,000 |
| 2) | Hanoi feed mill | 1996 | 636,000 |
| 3) | Tien Giang feed mill | 2000 | 360,000 |
| 4) | Binh Doung feed mill | 2010 | 720,000 |
| **Total livestock feed mill capacity** | | | **2,256,000** |
| *Additions* | | | |
| 5) | Hai Doung feed mill | 2012 | 432,000 |
| 6) | Binh Dinh feed mill | 2013 | 432,000 |
| **Anticipated livestock feed mill capacity** | | | **3,120,000** |

*(2) Livestock Farming Business*

The Target Group engages in the breeding and farming of various livestock products including swine and poultry. Livestock farming operations start with importing quality great-grand parent stocks of swine, parent stocks of broiler and layer from selective sources abroad, which then produce grand-parent stocks and parent stocks as well as piglets, broiler, layer day old chicks, pullet, and duck. Farm products are then generally sold in live form to external customers as well as processed internally. For external sale, similar to livestock feed sale, buyers purchase in cash. For internal use, livestock is processed to value-added meat products in food processing plants. Most of the farm products are supplied to fresh markets and partly supplied to the Target Group's own meat or food processing plants as well as external processing plants.

Apart from owning and renting farms, the Target Group also engages in "contract farming" with third-party farmers, which allows rapid business expansion without large capital expenditure required under ordinary farming business model. Contract farming is carried out with following conditions:

- The Target Group typically provides contract farmers with animal breed (day-old-chick/piglet), feeds and other nutrition items
- The Target Group also provides technical advice to contract farmers by providing husbandry course and regular consultation
- Contract farmers receive husbandry cost based on the pre-agreed pricing formula

As of 31 December 2010, the Target Group has 40 management centres and approximately 2,300 farms, consisting of approximately 140 breeder farms and approximately 2,160 commercial farms in Vietnam. Approximately 2,290 farms are operated via contract farming, which helps the rapid business expansion.

*(3) Livestock Meat and Food Business*

Outputs from farming business are processed into various food products. For meat processing, live animals (from the Target Group's commercial farms and contracted farms) are brought to the processing plant to be processed. Meat parts are then packaged, frozen, and distributed as chilled or frozen meat products to wholesalers, modern-trader, and domestic retailers. Other value added meat products include CPVL sausage production which is continued from the processing line, producing a variety of sausage products, which are supplied to similar types of customers.

As of 31 December 2010, the Target Group has one chicken food processing plant located in Dongnai with two main production lines, including a meat processing line with capacity of approximately 8,760 tons per year and sausage production line with capacity of approximately 3,120 tons per year.

In addition, the Target Group plans to operate a new chicken slaughtering plant in Hanoi with a production line for various types of sausage. Total capacity of this line is 35,280 tons per year and the plant is scheduled to commence its operation in the second half of 2011.

**Livestock food capacity as of 31 December 2010**

| **Plant** | **Year fully operated** | **Annual Capacity** *(tons per year)* |
|---|---|---|
| 1) Dongnai chicken processing plant | 2001 | 8,760 |
| 2) Dongnai sausage processing plant | 2001 | 3,120 |
| **Total livestock food processing plant** | | **11,880** |
| *Addition* | | |
| 3) Hanoi chicken slaughtering plant | 2H 2011 | 35,280 |
| **Anticipated livestock food capacity** | | **47,160** |

*AQUACULTURE BUSINESS*

*(1) Aquatic Feed Business*

The Target Group manufactures aquatic feeds with main products being shrimp and fish feeds. Similar to livestock feeds, aquatic feeds are marketed by sales representatives throughout Vietnam. For external sales, transportation and logistics from production plants to farmlands are arranged by buyers of aquatic feeds, leading to cost savings for the Target Group.

The quality of aquatic feed products is ensured at different stages of production via computerised formulation and production processes. The management believes that the Target Group's production system which is fully equipped with various quality control measures help its products achieve one of the lowest feed conversion ratios in Vietnam.

As of 31 December 2010, the Target Group has two shrimp/fish feed mill plants located in Dongnai and Can Tho with total capacity of 460,000 tons per year.

In addition, CPVL plans to operate another aquatic feed plant in Ben Tre with capacity of 240,000 tons per year, which is scheduled to commence its operation in 1H2011.

| **Plant** | | **Year fully operated** | **Annual Capacity** |
|---|---|---|---|
| | | | *(tons per year)* |
| 1) | Dongnai feed mill plant | 2000 | 300,000 |
| 2) | Can Tho feed mill plant | 2005 | 160,000 |
| **Total aquatic feed mill plant** | | | **460,000** |
| *Addition* | | | |
| 3) | Ben Tre feed mill plant | 2011 | 390,000* |
| **Anticipated aquatic feed mill plant** | | | **850,000** |

*Remark:*

* includes additional production lines planned to be commenced during 2012-2015 of approximately 240,000 tons per year

*(2) Aquatic Farming Business*

The Target Group is engaged in farming and breeding of aquatic animals mainly shrimp and fish. Other than locally procured breeders, the Target Group also imports certain shrimp breeds (i.e. Vanamei breed) from Thailand which tend to have higher survival ratios than ordinary shrimp breeds.

The Target Group's aquatic farms are well managed through the Target Group's six branches throughout Vietnam. The effective farming system is equipped with advanced technology and high quality shrimp and fish are raised in a bacteria-controlled environment.

As of 31 December 2010, the Target Group operates six shrimp farms/hatcheries and four fish farms across Vietnam.

The Target Group intends to expand shrimp/fish hatcheries and farms for serving internal and external demand. In the next 3 years, the Target Group plans to expand its total capacity of shrimp and fish farms to over 100,000 tons per year in order to supply internal food processing plants and cold storages for supporting export market.

*(3) Aquatic Food Business*

For the aquatic food business, shrimps are brought to the processing plants, semi-cooked and cooked according to customer specifications. Products are then frozen and packaged for export to various countries, including Japan, Korea, EU countries, and the US.

As at 31 December 2010, CPVL has one cold storage and shrimp processing plant located in Dongnai with a capacity of 3,000 tons per year.

In the near future, CPVL plans to operate two new shrimp and fish cold storage facilities, which are located in Hue and Ben Tre, respectively, with a total capacity of 70,000 tons per year. These cold storage facilities are planned to strategically support nearby aquatic farms for further processing to serve the export market. These projects are scheduled to commence operation in the second half of 2011.

**Aquatic food storage capacity as of 31 December 2010**

| **Plant** | **Year fully operated** | **Annual capacity** |
|---|---|---|
| | | *(tons per year)* |
| 1) Dongnai cold storage | 2002 | 3,000 |
| **Total aquatic food storage capacity** | | **3,000** |
| *Additions* | | |
| 2) Hue shrimp cold storage | 2011 | 15,000 |
| 3) Ben Tre fish cold storage | 2011 | 55,000* |
| **Anticipated aquatic food storage capacity** | | **73,000** |

*Remark:*

* includes additional production line planned to be commenced in 2012 of approximately 20,000 tons/year

**Target Group's licences**

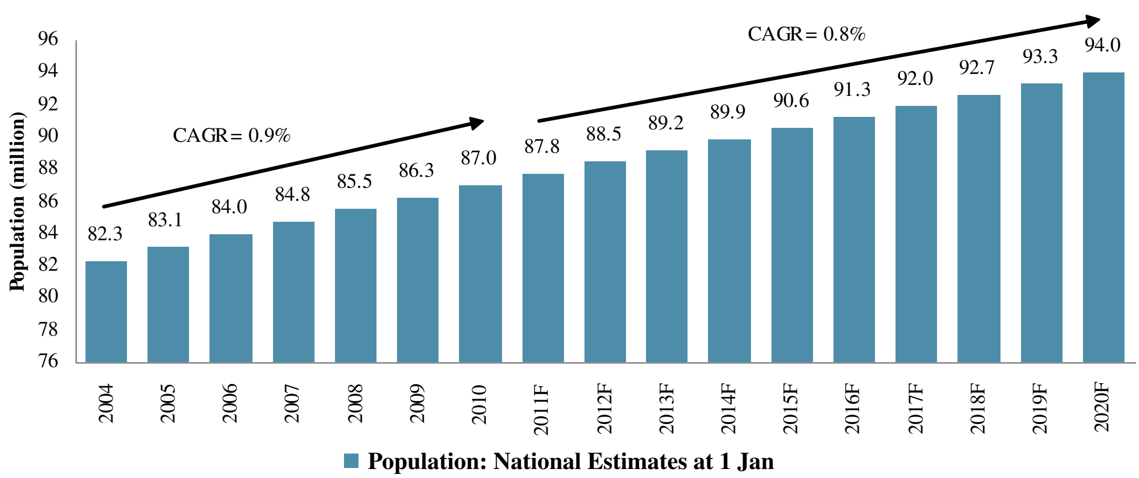
CPVL has obtained governmental approval for a 50-year period up to 2043 in respect of its current businesses. Apart from the above approval, CPVL is not aware of any requirement to obtain further licence to carry on its current businesses.

## L. INDUSTRY OVERVIEW

The section below shows the key demographic and economic drivers supporting the growth of livestock and aquaculture industry in Vietnam.

**Growing population**

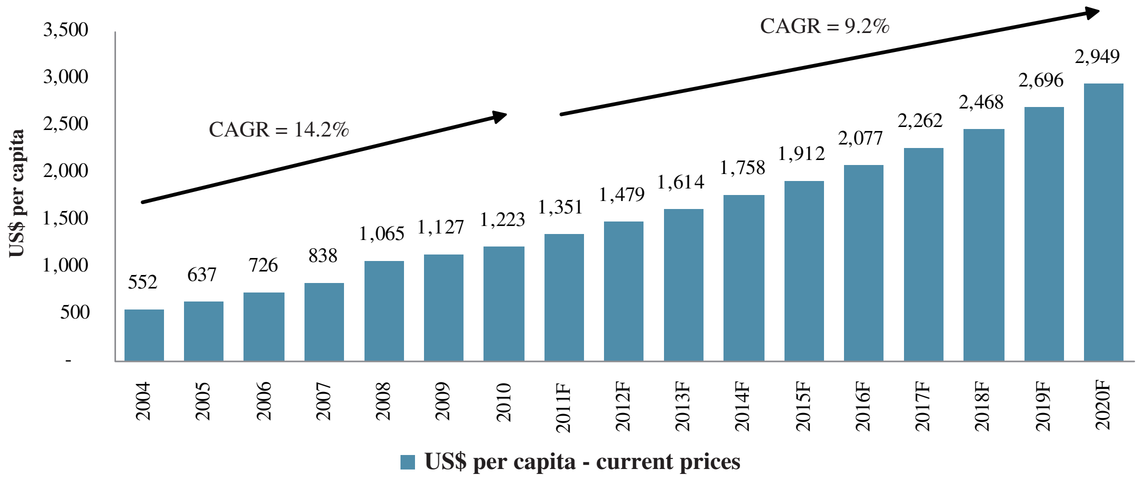
Vietnam has a growing population. The population increased from 82.3 million in 2004 to 87.0 million in 2010, representing a CAGR of 0.9%. According to Euromonitor, the population is expected to grow from 87.0 million in 2010 to 94.0 million in 2020.




*Source: Euromonitor*

**Increasing wealth**

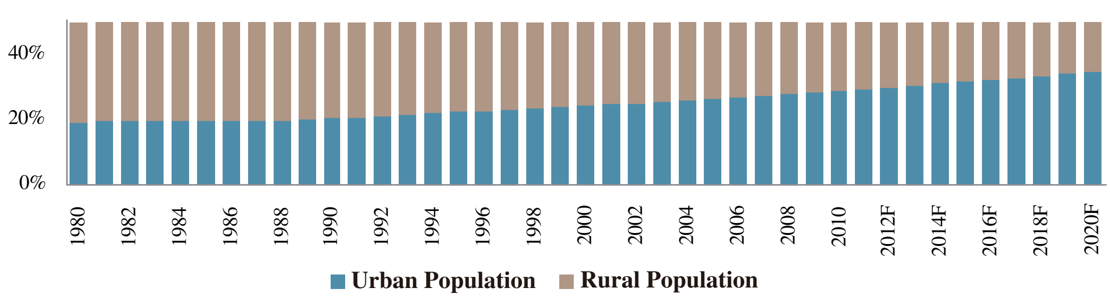
Vietnamese GDP per capita increased from US$552 in 2004 to US$1,223 in 2010, representing a CAGR of 14.2%. According to Euromonitor, the GDP per capita is expected to increase from US$1,223 in 2010 to US$2,949 in 2020.




*Source: Euromonitor*

**Urbanisation**

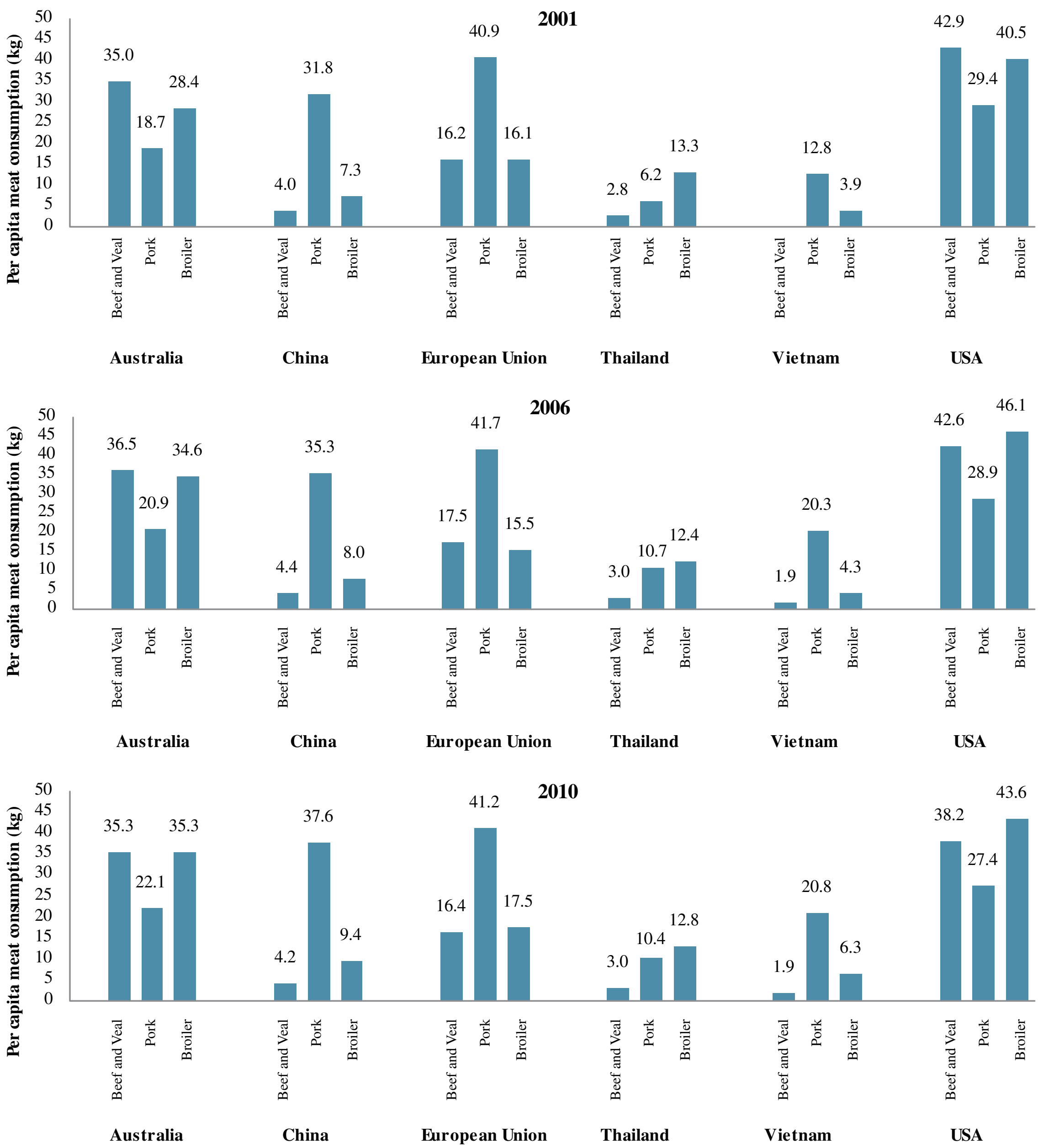
Urbanisation has been steadily increasing over the years. The urban population as a percentage of total population increased from 19% in 1980 to 29% in 2010. Compared to developed countries which have a much higher urbanisation rate, Euromonitor estimated that the percentage of urban population of Vietnam will increase to 35% in 2020.




*Source: Euromonitor*

**Growing per capita meat consumption**

The charts below show the per capita meat consumption (in the beef and veal, pork and broiler categories) of a few selected countries in 2001, 2006 and 2010. The per capita consumption of pork in Vietnam has been relatively higher compared to beef and veal and broiler consumption. Moreover, the meat consumption in Vietnam is currently low compared to developed countries. The increasing GDP, larger population, urbanization and the young population are the key drivers to the increasing meat consumption per capital in Vietnam.




*Source: The Food and Agricultural Policy Research Institute (FAPRI)*

*Note: No beef and veal per capita consumption data available for Vietnam for the year of 2001*

## M. LEGAL AND REGULATORY REQUIREMENTS

The following is a summary of the key Vietnamese laws and regulations relating to the principal businesses operated by the Target Group (namely feed production, farming business and food business):

### Price stabilization regulations

Under the Decision 116/2009/QD-TTg (dated 29 September 2009) of the Prime Minister, certain industrially produced animal and aqua feed products (main products of CPVL) are added to the List of goods and services subject to price stabilization. As a result, in case of extraordinary changes in market prices of these products, related governmental authorities may consider to implement price stabilization measurements. Following price stabilization measurements can be applied by respective governmental authority levels:

1. The Prime Minister decide and announce application of price stabilization measurements against related goods, services, including:

   a) Adjustment of demand and supply of goods;
   b) Purchase and sale of national reserves;
   c) Control of inventory;
   d) Financial and monetary measurements.

2. The Minister of Finance decide and announce application of price stabilization measurements against goods, services included in the list of goods and services subject to price stabilization applicable nationwide or for specific areas, including:

   a) Setting out maximum price, minimum price, price frame;
   b) Controlling those factors that affect price;
   c) Price registration; price declaration;
   d) Publicity of price-related information.

3. Chairman of province-level people's committee is responsible for organizing the implementation of price stabilization measurements decided by the Prime Minister and The Ministries; and, based on actual local situations, to set out additional price stabilization measurements for respective local application.

   a) Measurements under his authority for balancing the supply and demand of the related goods and services;
   b) Financial and monetary measurements;
   c) Price registration; price declaration;
   d) Publicity of price-related information;
   e) Other economic and administrative measurements pursuant under his authority.

**Competition Regulations**

In accordance with the Law on Competition, an enterprise shall be deemed to be in a dominant market position if such enterprise has a market share of thirty (30) per cent or more in the relevant market or is capable of substantially restraining competition. As an enterprise with dominant market position, such enterprise shall be subject to prohibition of certain practices considered constituting abuse of dominant market position, including:

1. Selling goods or providing services below total prime cost of the goods aimed at excluding competitors;

2. Fixing an unreasonable selling or purchasing price or fixing a minimum reselling price goods or services, thereby causing loss to customers;

3. Restraining production or distribution of goods and services, limiting the market, or impeding technical or technological development, thereby causing loss to customers;

4. Imposing different commercial conditions to the same transactions aimed at creating inequality in competition;

5. Imposing conditions on other enterprises signing contracts for the purchase and sale of goods and services or forcing other enterprises to agree to obligations which are not related in a direct way to the subject of the contract;

6. Preventing market participation by new competitors.

Considering the scale of CPVL's businesses in relevant markets, in case CPVL's market share in any relevant market reach 30% or more, it can be considered as an enterprise at dominant market position and be subject to restriction of the above practices.

**N. RISK FACTORS**

Shareholders should note that the occurrence of the following risks could have a material adverse effect on the business, results of operation, financial condition and future prospects of the Enlarged Group:

**1. Volatility of Commodity Prices**

*Raw Material Price Volatility*

The results of operation of the Target Group may be affected by the price volatility of main ingredients used in the production of animal feed, including corn, soybean meal, wheat and fish meal. These raw materials are basic agricultural commodities and their pricing is affected by global commodities pricing as well as domestic demand and supply. Fluctuations of commodity prices are affected by demand and supply of the agricultural product for human food production and for animal feed production.

*Live Animals and Meat Price Volatility*

The Target Group's revenue contribution from live animals and processed meat is approximately 44% of its total revenue in 2010. Price of products depends on the demand and supply at any particular time and period as well as the economic condition and consumer purchasing power and confidence. When supply exceeds demand in the market, there will be a negative impact on the selling price of the products of the Target Group and in turn on the performance of the Target Group.

**2. Disease Outbreak and Consumer Confidence**

The Target Group engages in animal farming and manufacturing of meat products. The Target Group's performance and the relevant industry will be greatly affected by any disease outbreak. Even though disease outbreak may not directly affect the Target Group's operation, it will have major impact on consumer confidence which may lead to a drop in meat consumption. In addition, any disease outbreak will reduce demand from export markets.

**3. Raw Material Supply Availability**

The Target Group requires a reliable supply of raw materials including corn, soybean meal, wheat, and fish meal, etc. The supply of raw materials varies from time to time and may be affected by weather conditions and natural calamities which may result in supply interruptions and shortages. Sourcing of these raw materials may also be affected by demands for these raw materials from competitors of the Target Group, and from producers of other goods which use similar raw materials.

**4. Foreign Currency Exchange Risk**

The Target Group is exposed to foreign currency risk mainly in relation to importation of raw materials, which are denominated in foreign currencies. Fluctuation in foreign exchange may affect cost of imported raw materials used in the production of animal feed. For the year ended 31 December 2010, the Target Group's total cost of imported raw materials is approximately 40-50% of total raw material costs.

**5. Interest rate risk**

The Target Group is exposed to volatility of market interest rates primarily in relation to its debt obligations with floating interest rates. As at 30 April 2011, approximately 96% of total loan balance was denominated in Vietnamese dong, which bears floating interest rate linked to local reference rate, and the remaining 4% was denominated in USD, which bears floating interest rate linked to LIBOR.

### 6. Substantial portion of revenue is derived from sales in Vietnam

The Target Group derives significant portion of its revenue from sales in Vietnam. Incidents such as significant down turn of the economy or outbreak of an epidemic in Vietnam will have a negative impact on the sales of the products of the Target Group and adversely affect its business, financial condition and results of operations.

### 7. Continued Support from Financial Institutions

As of 30 April 2011, the Target Group had bank borrowings of short term nature of approximately US$330 million and of long term nature of approximately US$11 million. These borrowings were used primarily in support of working capital needs as well as business expansion. The Target Group depends upon its good banking relationships to maintain financial support for continued operations and for future growth. If short term or long term financing is not available to the Target Group on commercially viable terms or at all, this may have an adverse effect on the Target Group's liquidity and working capital adequacy and its ability to maintain an appropriate level of inventory, and in turn negatively affect the Target Group's revenue and profit margins.

## O. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board believes that the Acquisition is a good opportunity for the CPP Group to gain:

(i) a controlling interest in a leading integrated livestock and aquaculture company in Vietnam in both commercial feed market and industrial farming market with approximately 20% market share of the commercial feed market and 30% of broiler farming market;

(ii) a broadened and diversified business base;

(iii) exposure to one of the fastest growing feed and farming markets in Southeast Asia; and

(iv) enhanced economies of scale in purchasing raw materials for its combined feed business.

The CPP Group is a leading feed producer in China controlling 78 feed mills across 28 provinces and municipalities in China. CPVL is a fully integrated livestock and aquaculture company whose primary operations are in Vietnam. CPVL's business spans across raw material procurement for livestock and feed businesses, feed manufacturing, breeding and farming of livestock and aquatic animals, distribution of feed products, processing of raw meats, and value-added manufacturing of food products.

Vietnam has a young and expanding population. According to the CIA World Fact Book, Vietnam is expected to have a population of over 90 million by mid 2011 with a median age of 27.8 years. Total meat consumption per capita in Vietnam is 40.7kg in 2007, compared to 28.3kg in Thailand, 122.8kg in United States and 53.5kg in China, according to FAO.

For feed production, the Target Group currently has 4 livestock feed mills with a capacity of approximately 2.26 million tons per year and 3 aquatic feed mills with a capacity of approximately 610,000 tons per year.

For livestock farming business, the Target Group currently has 40 management branches and approximately 2,300 livestock farms, of which 2,290 livestock farms are operated via contract farming, which helps the rapid business expansion. For aquatic farming business, the Target Group currently operates 6 shrimp farms/hatcheries and 4 fish farms.

For food business, the Target Group currently has one chicken food processing plant with two main production lines – meat processing line with capacity of approximately 8,760 tons per year and sausage production line with capacity of approximately 3,120 tons per year – and a cold storage for aqua products with a current capacity of 3,000 tons per year.

**P. LISTING RULES IMPLICATIONS**

The Chearavanont Shareholders, on an aggregate basis, were directly and indirectly interested in approximately 68.27% of the total number of Ordinary Shares in issue as at the Latest Practicable Date. CPG is owned as to 51.31% by the Chearavanont Shareholders. The Vendor is a direct wholly-owned subsidiary of CPG and is hence a connected person of the Company within the meaning of the Listing Rules.

Accordingly, the Acquisition and the related issue of the New Ordinary Shares and the New Convertible Preference Shares by the Company to the Vendor constitute a connected transaction for the Company under Chapter 14A of the Listing Rules.

Based on the relevant percentage ratios, the Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

The Acquisition is subject to the Independent Shareholders' approval and the Company is required to provide to the Shareholders the recommendation of the Independent Board Committee and the fairness opinion of an independent financial adviser under the Listing Rules. Save for Mr. Dhanin Chearavanont (who is one of the Chearavanont Shareholders and therefore has abstained from voting at the Board meeting to approve the Acquisition), none of the Directors has any material interest in the Acquisition. Approval of the Independent Shareholders is proposed to be sought at the SGM in respect of the Acquisition and the transactions contemplated thereunder, including the allotment and issue of the New Ordinary Shares, the New Convertible Preference Shares and the CPS Conversion Shares issuable upon conversion of the New Convertible Preference Shares.

Pursuant to Rule 14A.18 and Rule 14.46 of the Listing Rules, the Chearavanont Shareholders and their respective associates, who control or are entitled to control the voting right in respect of an aggregate 10,231,999,534 Ordinary Shares, representing approximately 68.27% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, will abstain from voting at the SGM with respect to the Acquisition and the transactions contemplated thereunder, including the allotment and issue of the New Ordinary Shares, the New Convertible Preference Shares and the CPS Conversion Shares issuable upon conversion of the New Convertible Preference Shares.

OSIL beneficially owned approximately 58.35% of the Ordinary Shares in issue as at the Latest Practicable Date. CPT is a wholly-owned subsidiary of C.P. Intertrade Co., Ltd. which indirectly beneficially owns approximately 6.70% of the Shares in issue as at the Latest Practicable Date. Each of C.P. Intertrade Co., Ltd. and CPG, of which OSIL is a wholly-owned subsidiary, is owned as to approximately 51.31% in the aggregate by the Chearavanont Shareholders. Hence, each of OSIL and CPT is a connected person of the Company within the meaning of the Listing Rules.

CPG is owned as to approximately 51.31% in aggregate by the Chearavanont Shareholders. Hence, CPG is a connected person of the Company within the meaning of the Listing Rules.

Upon completion of the Acquisition, Modern State will become a wholly owned subsidiary of the Company, and CPVL (which is held by Modern State as to 70.82%) will be an indirect non-wholly owned subsidiary of the Company. The Chearavanont Shareholders are interested in more than 30% of the issued share capital of Charoen Pokphand Foods PCL ("**CPF**") which, through its subsidiary Bangkok Food Products Co., Ltd. ("**BFP**"), is entitled to exercise 29.18% of the voting rights in the general meeting of CPVL.

Accordingly, upon completion of the Acquisition, CPVL will be a non-wholly owned subsidiary of the Company in which CPF (being an associate of the Chearavanont Shareholders and therefore a connected person of the Company other than at the level of the Company's subsidiaries) will be able to exercise more than 10% of the voting rights in the general meeting. Hence, CPVL is a connected person of the Company within the meaning of the Listing Rules.

The transactions under the Discloseable CCT Agreements and the Revised CCT Agreements therefore constitute continuing connected transactions of the Company under the Listing Rules. Taking into account the annual caps of the respective transactions under the Discloseable CCT Agreements, the respective transactions contemplated under the Discloseable CCT Agreements will constitute continuing connected transactions for the Company exempt from the independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules. Taking into account the annual caps of the respective transactions under the Revised CCT Agreements, the respective transactions contemplated under the Revised CCT Agreements will constitute non-exempt continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and will be subject to the Independent Shareholders' approval at the SGM. The Company is required to provide to the Shareholders the recommendations of the Independent Board Committee and the fairness opinion of an independent financial adviser in that connection. Pursuant to Rule 14A.18 of the Listing Rules, the Chearavanont Shareholders and their respective associates who control or are entitled to control the voting rights in respect of an aggregate of 10,231,999,534 Ordinary Shares, representing approximately 68.27% of the total number of Ordinary Shares in issue as at the Latest Practicable Date, will abstain from voting at the SGM with respect to the Revised CCT Agreements and the Continuing Connected Transactions. Save for Mr. Dhanin Chearavanont (who is one of the Chearavanont Shareholders and therefore has abstained from voting at the Board meeting to approve the Discloseable CCT Agreements and the Revised CCT Agreements), none of the Directors has any material interest in the Discloseable CCT Agreements and the Revised CCT Agreements.

In accordance with applicable requirements under the Listing Rules, the vote to be taken at the SGM in relation to the respective resolutions relating to the Acquisition, the Revised CCT Agreements and the transactions contemplated thereunder will be conducted by poll.

## Q. FINANCIAL IMPACT OF THE ACQUISITION

Upon Completion, Modern State will become a subsidiary of the CPP Group and the financial statements of Modern State and CPVL will be consolidated into the Company's consolidated financial statements.

The following sets out, for illustrative purposes only, the key financials of the CPP Group and the unaudited pro forma financials of the Enlarged Group after completion of the Acquisition, the issuance of the New Ordinary Shares and the New Convertible Preference Shares as consideration, as if the Acquisition had been completed as of 31 December 2010.

Please refer to Appendix III of this circular for pro forma financial information of the Enlarged Group.

| Year ended 31 December 2010 | The CPP Group (Prior to completion of the Acquisition and the issuance of the New Ordinary Shares and the New Convertible Preference Shares) *(US$'000)* | The Enlarged Group (After completion of the Acquisition and the issuance of the New Ordinary Shares and the New Convertible Preference Shares as consideration) *(US$'000)* | Percentage Increase |
|---|---|---|---|
| Total assets | 1,086,534 | 1,681,189 | 54.7% |
| Total liabilities | 528,375 | 919,490 | 74.0% |
| Net asset value | 558,159 | 761,699 | 36.5% |

Following the Completion, the results of the Target Group will be consolidated into the CPP Group. In view of the significant revenue and earnings base of the Target Group during the three years ended 31 December 2010, it is expected to enhance the revenue and earnings potential of the Enlarged Group in the future.

## R. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Target Group is a fully integrated livestock and aquaculture company whose primary operation is in Vietnam. The Target Group's business spans across extended value chain of raw material procurement for livestock and aquatic feed business, feed manufacturing, breeding and farming of livestock and aquatic animals, distribution, processing of raw meats and value-added manufacturing of ready meals. The Target Group's main products include manufactured and processed feeds and products of chicken, swine, shrimp and fish. By utilizing its own brands to market its products, the Target Group is able to further differentiate itself from its competitors. The Target Group's market leading position will also allow it to further benefit from strong market growth and attractive market dynamics.

Following completion of the Acquisition, the Enlarged Group will be able to (a) acquire an integrated livestock and aquaculture company in Vietnam that has a market leading position; (b) broaden and diversify the income base of the CPP Group; and (c) gain exposure in a profitable business in Vietnam with sustainable growth over the long term.

Moreover, the Revised CCT Agreements will be in place to leverage on the CP Group's global raw material sourcing network and to benefit from the synergies of the transaction. The Company is confident that the Enlarged Group will continue to build on its strong brand and distribution coverage, to increase its sales and the Acquisition will substantially improve the business of the CPP Group and contribute to long term value for the Shareholders. For further information on future development of the Target Group in the near term, please refer to the section headed "Information on the Target Group".

**S. SGM**

The Independent Board Committee has been established to consider whether the respective terms of the Acquisition, the Revised CCT Agreements and the continuing connected transactions contemplated thereunder and the related annual caps are fair and reasonable so far as the Independent Shareholders are concerned and CIMB Securities (HK) Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of the letter from CIMB Securities (HK) Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 46 to 72 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on page 45.

The Independent Board Committee, having taken into account the opinion of CIMB Securities (HK) Limited, considers the respective terms of the Acquisition, the Revised CCT Agreements and the continuing connected transactions contemplated thereunder and their related annual caps to be fair and reasonable and are in the interest of the Company and the Shareholders as a whole and accordingly, recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

The Acquisition is conditional upon Independent Shareholders' approval of the Revised CCT Agreements, and the continuing connected transactions contemplated thereunder and their related annual caps. The Acquisition is conditional on each of the proposed increase in authorised share capital of the Company and the proposed amendments to the Bye-laws being approved by the Shareholders, but not vice versa.

A notice convening the SGM at which resolutions will be proposed to the Shareholders to consider, and if thought fit, to approve, among other thing, the Acquisition, the Revised CCT Agreements and the continuing connected transactions contemplated thereunder, is set out on pages 156 to 180 of this circular.

A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting if they so wish.

Completion of the Acquisition is subject to various conditions and may or may not proceed to completion. Shareholders and potential investors in the Company should exercise caution when dealing in the CPP Shares.

## T. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
**Robert Ping-Hsien Ho**
*Director*

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

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 43)

21 June 2011

*To the Independent Shareholders*

Dear Sirs,

## MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 21 June 2011 issued to the Shareholders (the "Circular") of which this letter forms part. Capitalised terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

As independent non-executive Directors who are independent of the parties to the Acquisition and not having any interest in the transactions contemplated under the Acquisition and the Continuing Connected Transactions, we have been appointed by the Board to advise you as to whether, in our opinion, the terms of the Acquisition and the Continuing Connected Transactions, and their related annual caps, are fair and reasonable so far as the Independent Shareholders are concerned.

CIMB Securities (HK) Limited has been appointed by the Company as the independent financial adviser to advise us regarding the fairness and reasonableness of the terms of the Acquisition and the Continuing Connected Transactions and their related annual caps. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such opinion, are set out on pages 46 to 72 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 6 to 44 of the Circular and the additional information set out in the appendices to the Circular.

Having taken into account the opinion of and the principal factors and reasons considered by CIMB Securities (HK) Limited as stated in its letter of advice, we consider that the terms of the Acquisition and the Continuing Connected Transactions and related annual caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and its Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions in relation to the Acquisition and the Continuing Connected Transactions and their related annual caps to be proposed at the SGM.

Yours faithfully,
For and on behalf of
*the Independent Board Committee*

| **Ma Chiu Cheung, Andrew** | **Sombat Deo-isres** | **Sakda Thanitcul** |
|---|---|---|
| *Independent non-executive Director* | *Independent non-executive Director* | *Independent non-executive Director* |

**CIMB Securities (HK) Limited**

Units 7706-08 Level 77
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

21 June 2011

*To the Independent Board Committee and the Independent Shareholders of C.P. Pokphand Co. Ltd.*

Dear Sirs,

**(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE INTEREST IN MODERN STATE INVESTMENTS LIMITED; AND (2) CONTINUING CONNECTED TRANSACTIONS**

## INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition Agreement, the terms of the Revised CCT Agreements and the proposed annual caps (the "Proposed Annual Caps") for the Continuing Connected Transactions contemplated under each of the Revised CCT Agreements, details of which are contained in a circular of the Company (the "Circular") to the Shareholders dated 21 June 2011, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 30 May 2011, the Company entered into the Acquisition Agreement with the Vendor, a direct wholly-owned subsidiary of CPG, pursuant to which the Company has conditionally agreed to acquire from the Vendor the entire issued share capital of Modern State, the principal asset of which is its holding of a 70.82% shareholding interest in CPVL, at the Consideration of HK$4,735 million.

On the same day, the Company entered into the Revised Master CPP Supply Agreement with OSIL and the Revised Master CPP Purchase Agreement with CPT. Pursuant to the Revised Master CPP Supply Agreement, the Enlarged Group shall supply to OSIL and/or its related entities the CPP Supply Products. Pursuant to the Revised Master CPP Purchase Agreement, the Enlarged Group shall purchase from CPT and/or its related entities the CPP Purchase Products.

Details of the Acquisition Agreement and the Revised CCT Agreements are set out in the letter from the Board (the "Letter from the Board") of the Circular.

As at the Latest Practicable Date, the Chearavanont Shareholders, on an aggregate basis, were directly and indirectly interested in approximately 68.27% of the Ordinary Shares in issue. The Vendor is a direct wholly-owned subsidiary of CPG, which in turn is owned as to 51.31% by the Chearavanont Shareholders. As such, the Vendor is a connected person of the Company under the Listing Rules, and the Acquisition constitutes a connected transaction under the Listing Rules.

As at the Latest Practicable Date, OSIL beneficially owned approximately 58.35% of the Ordinary Shares in issue. CPT is a wholly-owned subsidiary of C.P. Intertrade Co., Ltd. which indirectly beneficially owned approximately 6.70% of the Ordinary Shares in issue as at the Latest Practicable Date. Each of C.P. Intertrade Co., Ltd. and CPG, of which OSIL is a wholly-owned subsidiary, is owned as to approximately 51.31% in aggregate by the Chearavanont Shareholders. Hence, each of OSIL and CPT is a connected person of the Company under the Listing Rules and the transactions contemplated under each of the Revised CCT Agreements constitute continuing connected transactions for the Company under the Listing Rules.

Given that relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Consideration exceed 25% and the annual caps for the respective Continuing Connected Transactions under each of the Revised CCT Agreements exceed HK$10 million, the Acquisition Agreement and the transactions contemplated thereunder, the Revised CCT Agreements and the transactions contemplated thereunder and the Proposed Annual Caps shall be subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

The Chearavanont Shareholders and their respective associates shall abstain from voting at the SGM with respect to the resolutions on the Acquisition Agreement and the Revised CCT Agreements.

An independent board committee comprising Mr. Ma Chiu Cheung, Andrew, Mr. Sombat Deo-isres and Mr. Sakda Thanitcul, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder, the Revised CCT Agreements and the transactions contemplated thereunder and the Proposed Annual Caps.

**BASIS OF OUR OPINION**

In formulating our recommendation, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. The Directors have declared in a responsibility statement set out in Appendix V to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have relied on the information and facts contained or referred to in the Circular, the information provided by the Company and our review of the relevant public information. We have also assumed that the information, facts and representations contained or referred to in the Circular were true and accurate at the time they were made and up to the date of the SGM. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, CPG, the Target Group, CPT, OSIL or any of their respective subsidiaries or associates. We have no reason to doubt the truth, accuracy and completeness of the information, facts and representations provided and represented to us by the Company. We have also been advised by the Company and believe that no material facts have been omitted from the Circular.

**PRINCIPAL FACTORS CONSIDERED**

In arriving at our opinion, we have considered the following principal factors and reasons:

**The Acquisition**

***(I) Background of the Acquisition Agreement***

On 30 May 2011, the Company entered into the Acquisition Agreement with the Vendor, a direct wholly-owned subsidiary of CPG, pursuant to which the Company has conditionally agreed to acquire from the Vendor the entire issued share capital of Modern State, the principal asset of which is its holding of a 70.82% shareholding interest in CPVL, at the Consideration of HK$4,735 million. The Consideration will be satisfied by the issue to the Vendor (or such person as it may nominate), credited as fully paid at the issue price of HK$0.90 each, of a total of 3,261,077,748 New Convertible Preference Shares and 2,000,000,000 New Ordinary Shares.

***(II) Information relating to the CPP Group***

*(i) Principal business*

On 28 February 2010, the CPP Group completed the acquisition of certain feed assets in the PRC from its parent group. Since then, the CPP Group has been principally engaged in the operation of feedmills for the production and sale of feed products. Additionally, the CPP Group is also engaged in various other relatively smaller businesses, including the production and sale of chlortetracycline ("CTC") products and through its jointly-controlled entities, the manufacturing and sale of motorcycles, carburetors and automobile accessories, and sale of Caterpillar machinery.

*(ii) Historic financial performance*

Set out below are the audited consolidated financial results of the CPP Group for the three years ended 31 December 2010 as extracted from the relevant annual reports of the CPP Group:

***Financial results***

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | **("FY2008")** *Note* | **("FY2009")** | **("FY2010")** |
| | *(US$'million)* | *(US$'million)* | *(US$'million)* |
| | (audited) | (audited) | (audited) |
| Turnover | 64 | 74 | 1,951 |
| Gross profit | 6 | 10 | 310 |
| *Gross profit margin* | *9.4%* | *12.8%* | *15.9%* |
| Selling and distribution costs | (3) | (3) | (85) |
| General and administrative expenses | (15) | (14) | (76) |
| Other income | 11 | 1 | 21 |
| Finance costs | (6) | (1) | (15) |
| Share of profits and losses of jointly controlled entities/associate | 11 | 17 | 28 |
| Profit before tax | 3 | 10 | 183 |
| Net profit | 3 | 9 | 153 |
| *Net profit margin* | *4.6%* | *11.9%* | *7.8%* |

*Note:* The financial results for FY2008 presented above refer to those of the CPP Group's continuing operations, without taking into account those for the CPP Group's discontinued operations, namely the feed manufacturing operations and the poultry farming operations in the PRC, which, as disclosed in the annual report 2009 of the Company, was disposed of by the Company in 2008. Such disposal was approved by the then independent shareholders of the Company on 19 June 2008 and completed on 22 August 2008.

In FY2009, the CPP Group's turnover increased by approximately 15.1% as compared to that for the continuing operations of FY2008, which, as advised by the Company, was mainly driven by the growth in sales of its CTC products, particularly domestic CTC products, given the CPP Group's efforts in strengthening its domestic sales through establishing technical service teams to promote the applicable use of the CTC products. In February 2010, the Company completed the acquisition of the feed entities in the PRC. In FY2010, the CPP Group's turnover recorded a significant increase to approximately US$1,950.8 million, representing approximately 26 times that of FY2009, which was mainly attributable to the consolidation of the operating results of the feed entities in the PRC acquired by the CPP Group for the ten months to 31 December 2010, the revenue of which amounted to approximately US$1,839.3 million for FY2010, representing approximately 94.3% of the total revenue for FY2010.

Goss profit margin improved to approximately 12.8% for FY2009, which, as disclosed in the annual report 2009 of the Company, was primarily due to drop in raw material costs, such as soybean cake meal, peanut meal and coal prices, of the CPP Group's CTC business. For FY2010, gross profit margin further increased to approximately 15.9%, which, as disclosed in the annual report 2010 of the Company, was mainly due to the Company's efforts on product review and rationalization, an optimized product structure and flexible pricing. Furthermore, we understand from the Company that the improvement in gross profit margin is also attributable to the feed business in the PRC acquired by the Company in FY2010.

The CPP Group recorded a net profit of approximately US$8.8 million for FY2009, representing approximately three times that for the continuing operations of FY2008, which, as disclosed in the annual report 2009 of the Company, was mainly contributed by its CTC business. For FY2010, the CPP Group recorded a net profit of approximately US$152.9 million, representing approximately 17 times that of FY2009, which was mainly attributable to the consolidation of the operating results of the feed entities in the PRC as elaborated above.

***(III) Information relating to CPVL***

As stated in the Letter from the Board, the principal asset of Modern State is its holding of the 70.82% shareholding interest in CPVL. Our analysis on CPVL is set out below.

*(i) Principal business of CPVL*

As stated in the Letter from the Board, CPVL was established in Vietnam in 1993 and is principally engaged in (i) manufacturing and distributing animal feed; (ii) breeding and farming livestock and aquatic animals; and (iii) processing and producing meat and food products.

As a leader in the livestock and aquaculture business in Vietnam, CPVL is a fully integrated livestock and aquaculture company with primary operations in Vietnam from procuring raw materials for livestock/aquatic feed production, manufacturing and distributing livestock/aquatic feed products, breeding and farming livestock/aquatic animals, processing raw meats and value-added manufacturing food products. CPVL has a well-established nation-wide sales and distribution platform, supported by more than 1,300 sales agents, which allows CPVL to offer its products to customers throughout the country.

Set out below is a summary of products, production capacity and customer group of CPVL in relation to its two business lines, namely livestock business and aquaculture business:

| Business | Sub-sector | Main product category | Production capacity (as at 31 December 2010) | Customer group |
|---|---|---|---|---|
| Livestock | Feed | Feed for swine, broiler, layer, duck and cattle | Four feed mill plants with a total production capacity of 2.26 million tons per year with an average utilisation rate of more than 80% for the three years ended 31 December 2010 | More than 1,300 sale agents with a portion sold directly to external feed buyers |
| | Farming | Swine and poultry | Approximately 2,300 farms, consisting of approximately 140 breeder farms and approximately 2,160 commercial farms, among which approximately 2,290 are contract farms | Fresh markets with a portion supplied to CPVL's own meat or food processing plants and external processing plants |
| | Meat and food | Chilled or frozen meat products and sausage products | One chicken food processing plant with a meat processing line with capacity of approximately 8,760 tons per year and a sausage production line with capacity of approximately 3,120 tons per year | Wholesalers, modern-traders, and domestic retailers |
| Aquaculture | Feed | Shrimp and fish feed | Two shrimp/fish feed mill plants with a total capacity of 460,000 tons per year | Sales representatives with a portion sold directly to external feed buyers |
| | Farming | Shrimp and fish in fresh form | Six shrimp farms/hatcheries and four fish farms | Fresh markets and internal meat/food processing plant/cold storage in Vietnam |
| | Meat and food | Processed, semi-cooked and cooked shrimp products | One cold storage and shrimp processing plant with capacity of 3,000 tons per year | Export markets including Japan, Korea, European Union countries and United States of America |

*(ii) Financial performance of CPVL*

Set out below is a summary of the key audited financial information of CPVL for the three years ended 31 December 2010 (the "Target Review Period"), which has been prepared in accordance with the accounting policies in compliance with IFRS:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (audited) | | 2009 (audited) | | 2010 (audited) | |
| | *(VND' billion)* | *(US$'million)* | *(VND' billion)* | *(US$'million)* | *(VND' billion)* | *(US$'million)* |
| Sales | 13,804 | 708 | 15,606 | 800 | 20,078 | 1,030 |
| Gross profit | 1,785 | 92 | 2,273 | 117 | 2,539 | 130 |
| *Gross profit margin* | | *12.9%* | | *14.6%* | | *12.6%* |
| Profit before tax | 596 | 31 | 1,325 | 68 | 1,180 | 61 |
| Net profit | 449 | 23 | 1,074 | 55 | 965 | 49 |
| *Net profit margin* | | *3.3%* | | *6.9%* | | *4.8%* |

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (audited) | | 2009 (audited) | | 2010 (audited) | |
| | *(VND' billion)* | *(US$'million)* | *(VND' billion)* | *(US$'million)* | *(VND' billion)* | *(US$'million)* |
| Total equity | 2,867 | 147 | 3,941 | 202 | 3,944 | 202 |

*Note: Key financial figures presented above are translated into US$ by using the exchange rate of VND19,500/US$.*

Sales of CPVL has been generated from its livestock business line and its aquatic business line, both of which typically comprise three segments namely feed products, farm products and food products. Set out below is the breakdown of sales and gross profit for the review period by segments:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | |
| **Sales** | *(US$'million)* | *%* | *(US$'million)* | *%* | *(US$'million)* | *%* |
| **Livestock business line** | | | | | | |
| – Feed products | 289 | 41% | 326 | 41% | 415 | 40% |
| – Farm products | 216 | 30% | 282 | 35% | 367 | 36% |
| – Food products | 40 | 6% | 40 | 5% | 46 | 4% |
| | 545 | 77% | 648 | 81% | 828 | 80% |
| **Aquatic business line** | | | | | | |
| – Feed products | 133 | 19% | 129 | 16% | 163 | 16% |
| – Farm products | 9 | 1% | 12 | 2% | 25 | 3% |
| – Food products | 21 | 3% | 11 | 1% | 14 | 1% |
| | 163 | 23% | 152 | 19% | 202 | 20% |
| **Total sales** | 708 | 100% | 800 | 100% | 1,030 | 100% |

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 (audited) | | 2009 (audited) | | 2010 (audited) | |
| **Gross profit** | *(US$'million)* | *Gross margin* | *(US$'million)* | *Gross margin* | *(US$'million)* | *Gross margin* |
| **Livestock business line** | 88 | 16.1% | 111 | 17.1% | 111 | 13.4% |
| **Aquatic business line** | 4 | 2.4% | 6 | 3.8% | 19 | 9.6% |
| **Total gross profit** | 92 | 12.9% | 117 | 14.6% | 130 | 12.6% |

*FY2010 versus FY2009*

For FY2010, CPVL recorded a year-on-year ("YoY") increase of approximately 28.8% in sales and approximately 11.1% in gross profit while a YoY decrease of approximately 10.9% in net profit. Gross profit margin decreased to approximately 12.6% from approximately 14.6% in FY2009 and net profit margin also decreased to approximately 4.8% from approximately 6.9% in FY2009.

As advised by the management of the Company, the increase in sales in FY2010 was mainly driven by (i) the increase of approximately 30.1% in the sales of the farm products segment (particularly those for swine and poultry) of the livestock business line of CPVL as a result of (a) the continuingly increased local demand subsequent to the recovery from the disruption caused by the swine flu disease in 2006; and (b) the increased local demand for disease-controlled swine provided by CPVL, which has a disease-control system, during the second and third quarters of 2010 in which there was a short-term swine flu disease; (ii) the increase of approximately 27.3% in the sales of the feed products segment of the livestock business line of CPVL mainly driven by the improvement in both sales volume and unit price of feed products and the expansion of the farm business in the country; and (iii) the increase of approximately 32.9% in the sales of the aquatic business line of CPVL mainly resulted from the expansion of the demand from the export markets after the recovery of the global economy.

The management of the Company also advised the decrease in gross profit margin of CPVL was mainly due to the decrease in gross profit margin of its livestock business line to approximately 13.4% in FY2010 (FY2009: approximately 17.1%) as a result of the increase in raw material costs and the decrease in swine price in domestic market as a result of the aforementioned swine disease during the second and third quarters of 2010.

Total equity of CPVL remained stable as at 31 December 2010 as compared to that as at 31 December 2009, which was mainly due to the cash dividend of approximately VND962 billion (equivalent to approximately US$49 million) paid by CPVL in FY2010, which mainly offset the net profit of the year of approximately VND965 billion (equivalent to approximately US$49 million).

The gearing ratio, calculated by dividing net debt by total equity, increased from approximately 0.68 as at 31 December 2009 to approximately 1.42 as at 31 December 2010 mainly due to the increase in the interest-bearing bank borrowings for capital expenditure and working capital.

*FY2009 versus FY2008*

For FY2009, CPVL recorded a YoY increase of approximately 13.0% in sales, approximately 27.2% in gross profit and approximately 139.1% in net profit. Gross profit margin and net profit margin improved to approximately 14.6% (FY2008: approximately 12.9%) and approximately 6.9% (FY2008: approximately 3.3%), respectively.

As advised by the management of the Company, the increase in sales in FY2009 was mainly attributable to the increase in the sales of the livestock business line of CPVL in the year. The increase in the sales of the livestock business line of CPVL was mainly attributable to (i) the increase of approximately 30.6% in the sales of the farm products segment of the livestock business line as a result of the continuingly increased demand in Vietnam for swine and poultry subsequent to the recovery from the disruption caused by the swine flu disease in 2006; (ii) the increase of approximately 12.8% in the sales of the feed products segment of the livestock business line mainly driven by the increase in sales volume (which offset the decrease in the average selling prices of the feed products in the period) and the recovery of the local market subsequent to the recovery from the aforementioned swine flu disease.

The management of the Company also advised the improvement in gross profit margin of CPVL was contributed by both the improvement in gross profit margin of its livestock and aquatic business lines in the year mainly as a result of the decreased unit cost of raw materials as compared to that in FY2008 the latter of which was relatively high mainly due to the then high global oil prices, the change in aqua business platform from demonstration farms to commercial ones, and the recovery of export market for the aquaculture products of CPVL as compared to FY2008. As advised by the Company, commercial farms are generally more profitable than demonstration farms as large capital expenditure is not required to be contributed into commercial farms as compared with demonstration farms.

Total equity of CPVL increased from approximately US$147 million as at 31 December 2008 to approximately US$202 million as at 31 December 2009, which was mainly attributable to the issue of the common shares by CPVL to CPVN under the merger agreement entered into between CPVN and CPVL on 12 February 2009, the merger of which became effective on 31 August 2009, and the net profit of FY2009.

The gearing ratio, calculated by dividing net debt by total equity, decreased from approximately 0.91 as at 31 December 2008 to approximately 0.68 as at 31 December 2009 mainly due to the increase in total equity which partially offset the impact of the increase in net debt of CPVL in the year.

We note from Appendix IV to the Circular that for each of FY2008 and FY2009, CPVL recorded net cash inflow from operating activities of approximately US$14 million and US$65 million respectively. For FY2010, CPVL recorded net cash outflow from operating activities of approximately US$24 million which was mainly due to the increase in inventories and trade and other receivables, which in turn was mainly driven by an increase in raw material costs and inventory volumn.

***(IV) Information relating to the livestock industry and the aquaculture industry in Vietnam***

As CPVL is a fully integrated livestock and aquaculture operator in Vietnam, we have reviewed public information in relation to the economic conditions, the livestock industry and the aquaculture industry in Vietnam.

*The economic conditions in Vietnam*

In respect of the macro economy in Vietnam, we have reviewed statistics issued by International Monetary Fund ("IMF") and note that during the period from 2001 to 2010, the gross domestic product ("GDP") of Vietnam increased from approximately US$32.5 billion in 2001 to approximately US$102.0 billion in 2010 (which is estimated by IMF), representing a compound annual growth rate ("CAGR") of approximately 13.6% and GDP per capita of the country also increased from approximately US$413 in 2001 to approximately US$1,156 in 2010 (which is estimated by IMF), representing a CAGR of approximately 12.1%.

During the same period, population of Vietnam increased gradually, reaching approximately 88 million in 2010 (which is estimated by IMF) and the average YoY growth rate of population was approximately 1.28%.

*The livestock industry and the aquaculture industry in Vietnam*

According to statistics compiled by General Statistics Office of Vietnam ("GSOV"), the number for each of poultry, cattle and pig raised in the country increased during the period from 2001 to 2009. For instance, GSOV estimated that in 2009, the number of poultry would amount to approximately 280 million heads, representing a CAGR of approximately 3.2% as compared to that of 2001, the number of pig would amount to approximately 28 million heads, representing a CAGR of approximately 3.0% as compared to that of 2001, and the number of cattle would amount to approximately 6 million heads, representing a CAGR of approximately 5.8% as compared to that of 2001.

Provisional statistics released by GSOV indicates that in 2009, the production of the farmed aquatic products would amount to approximately 2,569,900 tons, among which the production of each of fish and shrimp of the country in 2009 would amount to approximately 1,951,100 tons and approximately 413,100 tons, respectively, representing a CAGR of approximately 21.1% and 13.0%, respectively, as compared to that of 2001.

We also note from the provisional statistics released by GSOV that it is estimated that in 2009, the country would have 135,437 farms (including among others 20,809 livestock farms and 35,489 fishing farms), representing a CAGR of approximately 10.5% as compared to that of 2001.

In view of the aforesaid, we concur with the view of the management of the Company that the livestock and aquaculture market in Vietnam is in an uprising trend and hence CPVL, as one of the leading players in the country, is believed to be well positioned to benefit from the development and growth prospects of the industries.

***(V) Reasons for entering into of the Acquisition Agreement and benefits of the Acquisition***

After taking into account factors including that (i) the CPP Group is a leading feed producer in China controlling 78 feed mills across 28 provinces and municipalities in China; (ii) CPVL is a leader in the livestock and aquaculture business in Vietnam with a strong financial performance during the Target Review Period; and (iii) the livestock industry and the aquaculture industry in Vietnam is expected to be promising as elaborated above, we concur with the view of the management of the Company that the Acquisition will allow the Company to (i) acquire a controlling interest in a leading integrated livestock and aquaculture business in Vietnam in both commercial feed market and industrial farming market with approximately 20% market share of the commercial feed market and 30% of broiler farming market; (ii) broaden and diversify the business base of the CPP Group; (iii) gain exposure to one of the fastest growing feed and farming markets in Southeast Asia; and (iv) enhance economies of scale in purchasing raw materials for its combined feed business, and thus is in the interests of the Company and the Shareholders as a whole.

***(VI) Major terms of the Acquisition Agreement***

Major terms of the Acquisition Agreement and our analysis are set out below:

***(i) Basis of the Consideration***

As stated in the Letter from the Board, the Consideration of HK$4,735 million was arrived at after arm's length negotiations among the parties by using 12.5 times the sum of (a) 70.82% of the audited net profit after tax of CPVL (the "Audited 2010 NPAT") for the year ended 31 December 2010 and (b) the Audited 2010 Technical Service Fee Adjustment.

To assess the fairness and reasonableness of the Consideration, we have discussed with the management of the Company and, on a best effort basis, conducted a search of companies listed on the Vietnam exchange and principally engaged in manufacturing and sale of feed products and with market capitalisation no less than HK$1 billion. We have not identified any comparable based on such criteria. As such, we have expanded our search coverage to other Southeast Asian stock exchanges, including the Stock Exchange, the Malaysian exchange, the Philippines exchange, the Thailand exchange, the Singapore exchange and the Indonesia exchange and to the best of our knowledge, we identified 6 comparable companies as below (the "Comparables").

We then compared the valuation multiples, including price earnings ratio ("PER") and price to book ratio ("P/B"), of the Comparables with the implied PER and the implied P/B of the Acquisition, details of which are set out below:

| Company | Stock Code | Principal business/market | Market capitalisation (approximately) | PER (approximately times) | P/B (approximately times) |
|---|---|---|---|---|---|
| The Company | 43 HK | Operation of feed mills for production and sale of feed products, manufacturing and sale of CTC products, motorcycles and automobile accessories and trading of machinery with principal market in the PRC | HK$14,995 million Note 4 | 14.47 Note 4 | 3.87 Note 4 |
| San Miguel Pure Foods Co Inc | PF PM | Manufacturing and processing of canned meat products, operation of poultry business, and manufacturing of flour and feed products with principal market in Philippines | PHP166,584 million (equivalent to approximately HK$29,952 million) | 40.6 | 7.50 |
| Universal Robina Corporation | URC PM | Manufacturing, marketing, and distribution of branded consumer foods with products including hogs and poultry farming, animal feeds, corn products, and animal health products with principal market in Philippines | PHP90,706 million (equivalent to approximately HK$16,309 million) | 13.97 | 2.09 |
| Charoen Pokphand Foods Public Company Limited | CPF TB | Production of food products including chicken, pork, shrimp, fish, eggs and duck with principal market in Thailand | THB231,238 million (equivalent to approximately HK$59,282 million) | 14.78 | 3.46 |
| PT Charoen Pokphand Indonesia Tbk. | CPIN IJ | Manufacturing and distribution of animal feeds, woven plastic bags, and poultry equipment, processing chicken, operation of poultry farms and distribution of its products | IDR31,039,110 million (equivalent to approximately HK$28,385 million) | 12.83 | 6.06 |
| PT Japfa Comfeed Indonesia Tbk | JPFA IJ | Manufacturing animal feed, breeds and processing chickens, and operation of aquaculture farms with its products traded domestically and internationally | IDR7,976,172 million (equivalent to approximately HK$7,294 million) | 7.55 | 2.41 |
| Average of the Comparables | | | | 17.37 | 4.23 |
| Implied valuation of the Acquisition | | | | 12.5 Note 2 | 4.24 Note 3 |

*Notes:*

1. Data regarding the market capitalisations, PERs and P/Bs of the Comparables (except the Company as elaborated in Note 4 below) are sourced from Bloomberg as at 30 May 2011, being the date on which the Company and the Vendor entered into the Acquisition Agreement.

2. The implied PER of the Acquisition is calculated based on the Consideration and the adjusted audited net profit after tax of CPVL for the year ended 31 December 2010, being the aggregate of 70.82% of the Audited 2010 NPAT of approximately US$35.03 million and the Audited 2010 Technical Service Fee Adjustment of approximately US$13.67 million. Given that CPG and CPVL entered into the addendum to the CPG Technical Assistance Services Agreement on 1 January 2011, pursuant to which, with effect from 1 January 2011, the rate of the technical service fee payable by CPVL to CPG has been reduced from 3% to 1.5% of the net sales value of the products manufactured, produced and/or sold by CPVL in Vietnam or exported by CPVL from Vietnam, we consider that it is appropriate to adjust the Audited 2010 NPAT by adding back the Audited 2010 Technical Service Fee Adjustment for the purpose of the PER analysis.

3. The implied P/B of the Acquisition is calculated based on the Consideration and the 70.82% of the audited total equity of CPVL of approximately US$143.1 million as at 31 December 2010.

4. The market capitalisation, PER and P/B of the Company is calculated based on the issued Ordinary Shares after adjustment of the Existing Convertible Preference Shares of 1,135,916,667 shares as at 30 May 2011, net profit after tax attributable to owners of the Company for 2010 and net assets value attributable to owners of the Company as at 31 December 2010.

As shown above, PERs of the Comparables range from approximately 7.55 times to approximately 40.6 times, with an average of approximately 17.37 times, and P/Bs of the Comparables range from approximately 2.09 times to approximately 7.50 times, with an average of approximately 4.23 times.

We note that the implied PER of the Acquisition is lower than the average PER of the Comparables and the implied P/B of the Acquisition is within the range of the P/Bs of the Comparables.

Considering that CPVL has been profitable in the past few years, we believe that the PER analysis is the more appropriate basis to access the fairness of the Consideration. As the implied PER of the Acquisition is lower than the average PER of the Comparables, we are of the view that the Consideration is fair and reasonable and in the interests of the CPP Group and the Shareholders as a whole.

***(ii) Payment of the Consideration***

The Consideration of HK$4,735 million will be satisfied by the allotment and issuance of a total of 3,261,077,748 New Convertible Preference Shares and 2,000,000,000 New Ordinary Shares to the Vendor (or such person as it may nominate) at an issue price of HK$0.90 each (the "Issue Price"). The initial conversion price of the New Convertible Preference Shares is equal to the Issue Price, subject to adjustment.

Holder(s) of the New Convertible Preference Shares (i) shall not have the right to attend and vote at a general meeting (except a general meeting for winding-up of the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of such holder(s) or vary the restrictions to which the New Convertible Preference Shares are subject); and (ii) is/are conferred the rights of priority to receive distribution of assets on liquidation, winding-up or dissolution of the Company. In addition, holder(s) of the New Convertible Preference Shares is/are entitled to convert its New Convertible Preference Share(s) into such number of Ordinary Share(s) at the conversion ratio (which is equal to one, subject to the adjustment on the conversion price of the New Convertible Preference Shares), subject to the Public Float Requirement under the Listing Rules applicable to the Company and the New Convertible Preference Shares are not redeemable by the Company or the holders thereof. As such, such New Convertible Preference Shares are effectively Ordinary Shares. Further details of the terms of the New Convertible Preference Shares are set out in the Letter from the Board.

As stated in the Letter from the Board, the Issue Price was determined after arm's length negotiations between the parties to the Acquisition Agreement.

The Issue Price represents:

(a) a discount of approximately 3.23% to the closing price of HK$0.930 per Ordinary Share as quoted on the Stock Exchange on 30 May 2011, being the last trading day (the "Last Trading Day") prior to the Acquisition Agreement;

(b) a premium of approximately 9.8% over the closing price of HK$0.82 per Ordinary Share as quoted on the Stock Exchange as at the Latest Practicable Date;

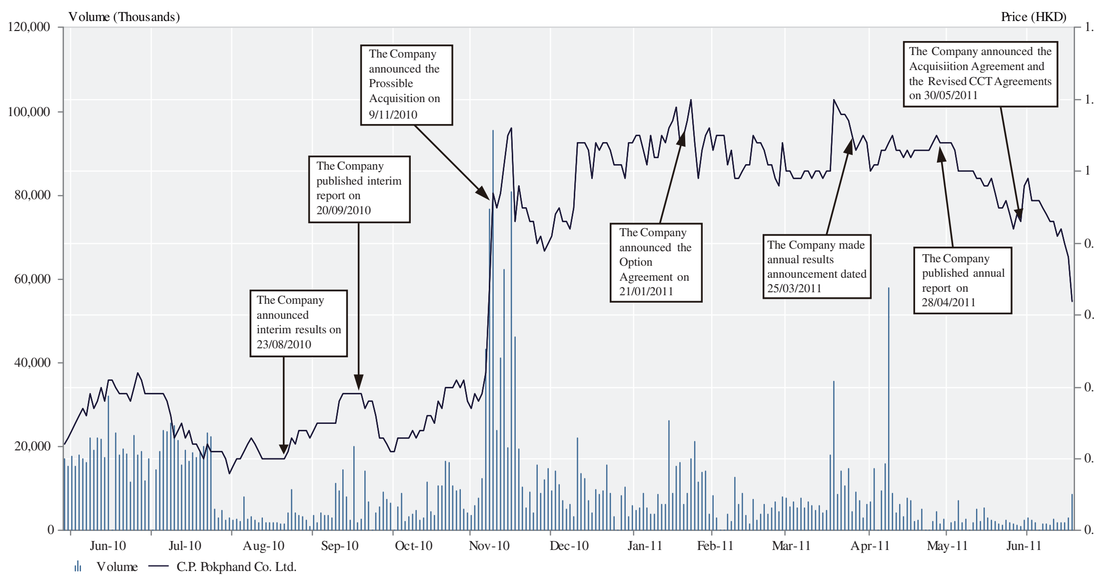
(c) a discount of approximately 4.05% to the average closing price of HK$0.938 per Ordinary Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 9.73% to the average closing price of HK$0.997 per Ordinary Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 3.02% to the average of the closing prices of approximately HK$0.928 per Ordinary Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day; and

(f) a premium of approximately 275% over the audited net assets value per CPP Share attributable to owners of the Company as at 31 December 2010 of approximately HK$0.24 per CPP Share.

Set out below is the share price chart of the Company during the 12-month period preceding the Last Trading Day and the period from the Last Trading Day up to and including the Latest Practicable Date (both dates inclusive) (the "Share Price Review Period"):




*Source: Factset and the Stock Exchange*

As illustrated above, the Ordinary Shares traded generally below HK$0.7 per Ordinary Share with occasional fluctuations for the period from 31 May 2010 up to and including 7 November 2010 (the "Period I"), and then surged to HK$0.84 and HK$1.06 per Ordinary Share on 8 November 2010 and 16 November 2010, respectively, and have since then been traded within a relatively narrow range of HK$0.90 to HK$1.10 until the share price began to drop to around HK$0.95 in the past few weeks (the "Period II"). We have reviewed the announcements made by the Company throughout the Share Price Review Period and set out below our observation and analysis.

*Period I from 31 May 2010 up to and including 7 November 2010*

During this period, the Ordinary Shares traded generally below HK$0.7 per Ordinary Share within a narrow band and the trading volume of the Ordinary Shares remained low. We are not aware of any other public announcements of price sensitive in nature issued by the Company during this period except that the Company made an announcement of the interim results on 23 August 2010 and published its interim report on 20 September 2010.

*Period II from 8 November 2010 up to and including the Latest Practicable Date*

The closing price and the trading volume of the Ordinary Shares surged to HK$0.84 per Ordinary Share and approximately 76.7 million Ordinary Shares, respectively, on 8 November 2010, and then reached another high record of HK$1.06 per Ordinary Share and approximately 80.8 million Ordinary Shares, respectively, on 16 November 2010. We note that except for the announcement dated 9 November 2010 issued by the Company in relation to the possibility of the acquisition of the Target Group by the Company (the "Possible Acquisition"), the announcement dated 21 January 2011 issued by the Company in relation to the Option Agreement pursuant to which the Company is granted an option by CPG to require CPG to sell or procure the sale of an aggregate of 70.82% of the total issued share capital of CPVL, the announcement dated 25 March 2011 issued by the Company in respect of the annual results for FY2010 and the annual report published on 28 April 2011, we are not aware of any other public announcements made by the Company that we consider were price sensitive in nature and helped to explain the surges in the closing price and the trading volume of the Ordinary Shares at the beginning of this period.

*Analysis*

In general, the Ordinary Shares traded in a relatively narrow range with a thin trading volume for each of the Period I and Period II except that the closing price and the trading volume surged at the beginning of the Period II which we consider would be likely due to market speculation on the Possible Acquisition.

Given that the Issue Price represents (i) a premium of approximately 5.9% over the average closing price of approximately HK$0.85 per Ordinary Share for the Share Price Review Period; and (ii) a premium of approximately 275% over the audited net assets value per CPP Share attributable to owners of the Company as at 31 December 2010 of approximately HK$0.24 per CPP Share, we consider that the Issue Price of HK$0.9 per New Convertible Preference Share and per New Ordinary Share is fair and reasonable despite that the Issue Price represents an insignificant discount of approximately 4.05% to the average closing price of HK$0.938 per Ordinary Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and approximately 9.73% to the average closing price of approximately HK$0.997 per Ordinary Share for the 30 consecutive trading days up to and including the Last Trading Day.

We have discussed with the management of the Company in respect of other possible financing alternatives for the Acquisition, such as debt financing, rights issue, open offer or placing. Management considers that those financing alternatives may not be optimal after taking into account (i) the financial position of the Company and the then market conditions; (ii) a lengthy negotiation process and relatively higher financing cost for the Company for debt financing, including bank borrowings and issuance of bond; (iii) the time required for rights issue or open offer to identify appropriate underwriter(s) and to reach a mutually-agreed subscription price for rights issue or open offer and substantial cost related to underwriting commission; (iv) the more significant dilution effects on shareholdings of those non-participating Shareholders as subscription price for rights issue or open offer would normally be set at a discount to the market price of the relevant shares; and (v) the pressure on the price of the Ordinary Shares following a substantial placing and substantial cost related to placing commission. Based on the above, together with the factor that the settlement of the Consideration in full by the New Convertible Preference Shares and the New Ordinary Shares allows the Company to acquire the Target Group without incurring any cash outlay (other than for payment of related expenses), we concur with the view of the management of the Company that financing the Acquisition by way of issue of the New Convertible Preference Shares and the New Ordinary Shares is appropriate and beneficial to the Company.

*Our view*

Having considered the above, in particular the Consideration basis and the Issue Price, we are of the view that the terms of the Acquisition Agreement are fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the CPP Group and the Shareholders as a whole.

***(VII) Possible financial effects of the Acquisition***

*(i) Accounting treatment upon Completion*

As stated in the Letter from the Board, upon Completion, Modern State will become a wholly-owned subsidiary of the Company and the financial statements of Modern State will be consolidated into the Company's consolidated financial statements.

*(ii) Dilution effect on shareholding of the Company*

Assuming that there are no changes in the issued share capital of the Company between the Latest Practicable Date and the date of Completion, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and the allotment and issue of the New Convertible Preference Shares and the New Ordinary Shares; (iii) immediately after full conversion of the New Convertible Preference Shares, assuming no further CPP Shares will be issued or repurchased by the Company in the meantime; and (iv) immediately after full conversion of both the Existing Convertible Preference Shares and the New Convertible Preference Shares, assuming no other CPP Shares will be issued or repurchased by the Company in the meantime is as follows:

| Name of Shareholders | Shareholding structure as at the Latest Practicable Date | | | Shareholding structure immediately after Completion and allotment and issue of the New Convertible Preference Shares and the New Ordinary Shares | | | | Shareholding structure immediately after full conversion of the New Convertible Preference Shares | | | | Shareholding structure Immediately after full conversion of the Existing Convertible Preference Shares and the New Convertible Preference Shares | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. of Ordinary Shares | % | No. of Existing Convertible Preference Shares | No. of Ordinary Shares | % | No. of Existing Convertible Preference Shares | No. of New Convertible Preference Shares | No. of Ordinary Shares | % | No. of Existing Convertible Preference Shares | No. of New Convertible Preference Shares | No. of Ordinary Shares | % | No. of Existing Convertible Preference Shares | No. of New Convertible Preference Shares |
| OSIL | 8,745,891,089 | 58.35% | 0 | 10,745,891,089 | 63.26% | 0 | 3,261,077,748 | 14,006,968,837 | 69.17% | 0 | 0 | 14,006,968,837 | 65.50% | 0 | 0 |
| CPI Holding Co., Ltd. | 1,004,014,695 | 6.70% | 0 | 1,004,014,695 | 5.91% | 0 | 0 | 1,004,014,695 | 4.96% | 0 | 0 | 1,004,014,695 | 4.70% | 0 | 0 |
| Worth Access Trading Limited | 481,250,000 | 3.21% | 0 | 481,250,000 | 2.83% | 0 | 0 | 481,250,000 | 2.38% | 0 | 0 | 481,250,000 | 2.25% | 0 | 0 |
| Chearavanont Shareholders (directly held) | 843,750 | 0.01% | 0 | 843,750 | 0.00% | 0 | 0 | 843,750 | 0.00% | 0 | 0 | 843,750 | 0.00% | 0 | 0 |
| Chearavanont Shareholders (directly and indirectly held, in aggregate) | 10,231,999,534 | 68.27% | 0 | 12,231,999,534 | 72.00% | 0 | 3,261,077,748 | 15,493,077,282 | 76.51% | 0 | 0 | 15,493,077,282 | 72.45% | 0 | 0 |
| Public Shareholders | 4,755,836,176 | 31.73% | 1,135,916,667 | 4,755,836,176 | 28.00% | 1,135,916,667 | 0 | 4,755,836,176 | 23.49% | 1,135,916,667 | 0 | 5,891,752,843 | 27.55% *(Note 2)* | 0 | 0 |
| **Total** | **14,987,835,710** | **100%** | **1,135,916,667** | **16,987,835,710** | **100%** | **1,135,916,667** | **3,261,077,748** | **20,248,913,458** | **100%** | **1,135,916,667** | **0** | **21,384,830,125** | **100%** | **0** | **0** |

*Notes:*

1. The above chart does not include a total of 3,300,540,621 Existing Convertible Preference Shares which will be issued and allotted to OSIL upon full repayment of outstanding advances from the CPP Group to OSIL, its subsidiaries and jointly-controlled entities.

2. As at the Latest Practicable Date, all Existing Convertible Preference Shares were held by an independent third party which, in the event of full conversion of the Existing Convertible Preference Shares and the New Convertible Preference Shares, will hold approximately 10.6% of the issued Ordinary Shares and will therefore cease to be a public shareholder for the purposes of the Listing Rules. In that event, public shareholders of the Company will hold 3,620,836,176 Ordinary Shares representing approximately 16.93% of the issued Ordinary Shares.

We note that the interest of the public Shareholders will be slightly diluted upon Completion from approximately 31.73% to approximately 27.55% under the assumption that the New Convertible Preference Shares and the Existing Convertible Preference Shares held by the public are converted in full. After taking into that the issue of the New Convertible Preference Shares and the New Ordinary Shares allows the Company to purchase a sizeable operation with a profitable track record, we consider that such dilution effect is acceptable.

*(iii) Net assets value*

As noted from the unaudited pro forma financial information of the Enlarged Group as at 31 December 2010 in Appendix III to the Circular, the unaudited pro forma net assets value of the Enlarged Group would increase by approximately US$203.5 million as a result of the Acquisition.

*(iv) Working capital*

Given that there will be no immediate cash outflow for the CPP Group with respect of the Acquisition (save for the payment of related expenses) as the Consideration will be fully satisfied by issue of the New Convertible Preference Shares and the New Ordinary Shares and the cash and cash equivalents of the Company amounted to approximately US$138.1 million as at 31 December 2010, the Directors confirm that the Enlarged Group has sufficient working capital for at least the next twelve months from the date of the Circular despite that CPVL recorded net cash outflow from operating activities of approximately US$24 million in 2010.

The Directors also advised that they are not aware of any matter or fact which will render the Enlarged Group not having sufficient working capital for its requirement upon Completion.

Having considered the above, we are of the view that the Acquisition has no material impact on the Enlarged Group's working capital immediately upon Completion.

***(VIII) Recommendation on the Acquisition***

Having considered the principal factors and reasons referred to the above, in particular:

– the Acquisition represents an attractive opportunity for the Company to, among others, acquire a controlling interest in a leading integrated livestock and aquaculture business in Vietnam which is one of the fastest growing feed and farming markets in Southeast Asia and we believe has a promising outlook, and to broaden and diversify its business base;

– the implied PER of the Acquisition is lower than the average PER of the Comparables;

– the Issue Price represents a premium to the average closing price of the Ordinary Share for the Share Price Review Period and a premium over the audited net assets value per CPP Share attributable to owners of the Company as at 31 December 2010 despite of insignificant discount to each of the average closing price for the 5 consecutive trading days up to and including the Last Trading Day and the average closing price for the 30 consecutive trading days up to and including the Last Trading Day;

– the insignificant dilution to the shareholding of the public Shareholders; and

– the Consideration will be fully settled by issue of the New Convertible Preference Shares and the New Ordinary Shares and there will be no cash outflow for the CPP Group in respect of the Acquisition (save for the payment of related expenses),

we are of the opinion that the Acquisition, which is not in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole and that the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable and in the interests of the CPP Group and the Shareholders as a whole. Therefore, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

**Continuing Connected Transactions**

***(I) Reasons for entering into of the Continuing Connected Transactions***

The CPP Group has been carrying out continuing connected transactions with OSIL and CPT under the Master CPP Supply Agreement and the Master CPP Purchase Agreement respectively. On the other hand, CPVL has also been carrying out transactions with OSIL and CPT, by supplying food-related products to OSIL and purchasing packaging materials from CPT. In this connection, the Revised CCT Agreements have been entered into at the same time as the Acquisition Agreement in order to replace, effective upon completion of the Acquisition, the Master CPP Supply Agreement and the Master CPP Purchase Agreement, which were (together with the related annual caps) approved by the then independent Shareholders, and became effective, on 24 November 2010. Their replacement has been necessitated by the inclusion of CPVL and its business in the CPP Group upon completion of the Acquisition.

Pursuant to the Revised Master CPP Supply Agreement, the Enlarged Group shall supply to OSIL and/or its related entities the CPP Supply Products which the Enlarged Group may be able to supply in circumstances which are of commercial benefit to the Enlarged Group, including various feed-related, farm-related and food-related products produced or procured by the Enlarged Group such as animal feed, CTC products, animal drugs and feed raw materials, breeding and farming livestock, and processed meats and food products which may be required by OSIL and/or its related entities.

Pursuant to the Revised Master CPP Purchase Agreement, the Enlarged Group shall purchase from CPT and/or its related entities the CPP Purchase Products which CPT and/or its relented entities may be able to supply in circumstances which are of commercial benefit to the Enlarged Group, including raw materials, machinery and equipment, promotional products, packaging materials, breed and farm livestock and aqua stock, meats and other items required for the production and sale of animal and aqua feed, farm and food products and CTC products by the Enlarged Group in the normal course of business.

Given the nature of the Continuing Connected Transactions as stated above, the principal business of the Enlarged Group after Completion and our discussion with the Company in relation thereto, we consider that the entering into of the Revised Master CPP Supply Agreement and the Revised Master CPP Purchase Agreement falls within the ordinary and usual course of business of the CPP Group and the Continuing Connected Transactions are in the interests of the CPP Group and the Shareholders as a whole.

***(II) Major terms of the Continuing Connected Transactions***

*(A) Revised Master CPP Supply Agreement*

As stated in the Revised Master CPP Supply Agreement, the sale prices of the CPP Supply Products to be charged by the Enlarged Group to OSIL and/or its related entities shall be determined by reference to the prevailing market prices of, the cost of marketing (if any), and demand for the CPP Supply Products in the PRC or Vietnam (as the case may be), and shall be no less favourable than those available to the Enlarged Group from independent third party purchasers.

The Enlarged Group will grant OSIL and/or any of its related entities a credit term of up to 60 days from delivery, or other generally accepted market terms from time to time. Payment for the purchases by OSIL and/or its related enitities shall be made by telegraphic transfer, bank-issued bills payable within three months or other payment methods acceptable in the PRC or Vietnam (as the case may be).

The Revised Master CPP Supply Agreement shall take effect from the date of Completion (which is expected to be some time in the course of the financial year ending 31 December 2011) and continue until 31 December 2013.

We have discussed with the management of the Company in relation to the pricing principle and understand that the prices of the CPP Supply Products are usually market oriented and usually determined on an arm's length negotiation basis between suppliers and customers. The Company further advises that the prices of the CPP Supply Products to be charged by the Enlarged Group to OSIL and/or its related entities shall be no less favourable than those available to the Enlarged Group from its independent third party purchasers.

We have reviewed supporting documents provided by the Company in relation to the historical transactions (i) contemplated under the Master CPP Supply Agreement; and (ii) conducted with independent third parties on a sample basis, and note that the prices charged by the CPP Group to OSIL and/or its related entities were no less favourable than those available to the CPP Group from its independent third party purchasers.

We have also discussed with the management of the Company in relation to the payment terms and are advised by the Company that such payment terms are in line with those offered to independent third party purchasers by the CPP Group.

*(B) Revised Master CPP Purchase Agreement*

As stated in the Revised Master CPP Purchase Agreement, the purchase prices of the CPP Purchase Products to be charged by CPT and/or its related entities to the Enlarged Group shall be determined on the basis of arm's length negotiations, and shall not be higher than the prevailing market prices in the PRC or Vietnam (as the case may be) nor less favourable than those available to the Enlarged Group from independent third party suppliers.

The Enlarged Group will be granted by CPT and/or its related entities a credit term of up to 60 days from delivery, or generally accepted market terms from time to time. Payment for the purchases by the Enlarged Group shall be made by telegraphic transfer, bank-issued bills payable within three months or other payment methods acceptable in the PRC or Vietnam (as the case may be).

The Revised Master CPP Purchase Agreement shall take effect from the date of Completion (which is expected to be some time in the course of the financial year ending 31 December 2011) and continue until 31 December 2013.

We have discussed with the management of the Company in relation to the pricing principle and understand that the prices of the CPP Purchase Products are usually market oriented and usually determined based on arm's length negotiations between suppliers and customers and that the prices for the CPP Purchase Products to be charged by CPT and/or any of its related entities to the Enlarged Group shall be no less favourable than those available to the Enlarged Group from its independent third party suppliers.

We have reviewed supporting documents provided by the Company in relation to the historical transactions (i) contemplated under the Master CPP Purchase Agreement; and (ii) conducted with independent third parties on a sample basis, and note that the prices charged to the CPP Group by CPT and/or its related entities were no less favourable than those available to the CPP Group from its independent third party suppliers.

We have also discussed with the management of the Company in relation to the payment terms and are advised by the Company that such payment terms are in line with those offered by independent third party suppliers to the CPP Group.

*Our view*

Having considered the above, we concur with the view of the management of the Company that the major terms of the Revised CCT Agreements, particularly the pricing principles and the payment terms, are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the CPP Group and the Shareholders as a whole.

*(III) Proposed Annual Caps*

Set out below are the details of (i) the historical transactions amounts for each of the three years ended 31 December 2010 and the four months ended 30 April 2011; and (ii) the Proposed Annual Caps for each of the three years ending 31 December 2013:

| | Historical transaction amounts | | | | Proposed Annual Caps | | |
|---|---|---|---|---|---|---|---|
| | for the year ended 31 December | | | for the four months ended 30 April | for the year ending 31 December | | |
| | 2008 | 2009 | 2010 | 2011 | 2011 [Note] | 2012 | 2013 |
| | *US$ million* | *US$ million* | *US$ million* | *US$ million* | *US$ million* | *US$ million* | *US$ million* |
| Revised Master CPP Supply Agreement | 166.8 | 201.6 | 337.5 | 138.2 | 984.3 | 1,479.3 | 1,885.7 |
| Revised Master CPP Purchase Agreement | 21.0 | 13.0 | 23.3 | 15.0 | 414.2 | 479.0 | 558.9 |

*Note:* As stated in the Letter from the Board, each of the Revised CCT Agreements is expected to become effective some time in the course of the financial year ending 31 December 2011, and thus the above proposed annual caps for the financial year ending 31 December 2011 will be the prorated portion of the full amount for that year representing the remaining part of the financial year calculated on a day-to-day basis from the date on which the relevant agreements become effective until 31 December 2011.

Details of the basis of the determination and our analysis of the Proposed Annual Caps are set out below:

**Proposed annual caps for the continuing connected transactions contemplated under the Revised Master CPP Supply Agreement (the "Revised CPP Supply Caps")**

As stated in the Letter from the Board, the Revised CPP Supply Caps have been determined by reference to: (i) the value of the historical sales of the CPP Supply Products by the CPP Group to OSIL and/or its related entities for the four months ended 30 April 2011; (ii) the prevailing market prices of the CPP Supply Products; (iii) allowances for possible price increases in line with consumer prices in the PRC and Vietnam generally and volume growth in the future; (iv) the expected increase in demand for the CPP Supply Products during the relevant period due to the expected expansion of the scope of the products and the production capacity of the CPP Group; (v) internal projection of the expected sales volume of the CPP Supply Products; (vi) the subject matter of the Revised Master CPP Supply Agreement being expanded on account of the products of CPVL (which following completion of the Acquisition will become part of the CPP Group) becoming part of the "CPP Supply Products"; and (vii) the acquisition of C.P. Aquaculture (Yangjiang) Co., Ltd. and the leasing of an additional feed mill as announced by the Company on 25 May 2011.

To assess the fairness and reasonableness of the Revised CPP Supply Caps, we have discussed and reviewed the calculation of the Revised CPP Supply Caps with the management of the Company. Based on such review and discussion, we understand that the Revised CPP Supply Caps are determined based on the expected annual sales of the CPP Supply Products to OSIL and/or its related entities by individual members of the Enlarged Group which in turn are based on the indicated demand from OSIL and/or its related entities in the coming three years and that the Directors have taken into account the following principal factors when determining the Revised CPP Supply Caps: (i) the historical transaction amounts of the CPP Supply Products between CPVL and the CPP Group on one hand and OSIL and/or its related entities on the other for each of the three years ended 31 December 2010 and the four months ended 30 April 2011; (ii) the expansion of the scope of continuing connected transactions contemplated under the Revised Master CPP Supply Agreement to include sale of the CPP Supply Products from CPVL to OSIL and/or its related entities upon Completion and the sale of the CPP Supply Products by the recently acquired C.P. Aquaculture (Yangjiang) Co., Ltd. and the additional feed mill leased by the Company as announced by the Company on 25 May 2011.

We note that the Revised Supply Annual Caps for each of the two years ending 31 December 2012 represented a slight increase of approximately 6.9% and 9.7%, respectively, over the then approved annual caps of HK$7,179.5 million and HK$10,518.9 million respectively pursuant to the Master CPP Supply Agreement dated 18 October 2010, the increment of which, as advised by the Company, was mainly attributable to the expected supply of the CPP Supply Products by the Target Group after the Completion and the recently acquired C.P. Aquaculture (Yangjiang) Co., Ltd. and the additional feed mill leased by the Company as announced on 25 May 2011.

We note that the proposed annual cap for 2012 represents an approximately 50.3% increment over that of 2011 and the proposed annual cap for 2013 represents an approximately 27.5% of increment over that of 2012, which was mainly attributable to the material increase in the indicated demand from certain OSIL-related entities for the CPP Supply Products for each of 2012 and 2013 as compared to that of the respective preceding year based on our review of such demand indication provided by the Company. To the best knowledge of the Company, OSIL and its related entities indicate demand for the CPP Supply Products based on their respective operation scale, prevailing market conditions and business expansion plan during the term of the Revised CPP Supply Agreement. Taking into account the above and the YoY growth rate in the historical transaction amounts, being approximately 20.9% and 67.4% for 2009 and 2010 respectively, we consider the aforementioned increment rate of the Revised CPP Supply Caps is justifiable.

Having considered the above, we are of the view that the basis for determining the Revised CPP Supply Caps is justifiable and the Revised CPP Supply Caps are fair and reasonable so far as the Company and the Shareholders are concerned.

**Proposed annual caps for the continuing connected transactions under the Revised Master CPP Purchase Agreement (the "Revised CPP Purchase Caps")**

As stated in the Letter from the Board, the Revised CPP Purchase Caps have been determined by reference to: (i) the value of the historical purchases of the CPP Purchase Products by the CPP Group from CPT and/or its related entities for the four months ended 30 April 2011; (ii) internal projection of the expected purchase volume of the CPP Purchase Products; (iii) the prevailing market prices of the CPP Purchase Products; (iv) allowances for possible price increases in line with consumer prices in the PRC and Vietnam generally and volume growth in the future; (v) the expected demand for the relevant products by the CPP Group (including, assuming completion of the Acquisition, CPVL) over the period due to potential growth of the production capacity of the CPP Group; (vi) the subject matter of the Revised Master CPP Purchase Agreement being expanded on account of the products required by CPVL (which following completion of the Acquisition will become part of the CPP Group) becoming part of the "CPP Purchase Products"; and (vii) the recent acquisition of C.P. Aquaculture (Yangjiang) Co., Ltd. and the leasing of an additional feed mill as mentioned above.

We note that the proposed annual cap for 2012 represents an approximately 15.6% increment over that of 2011 and the proposed annual cap for 2013 represents an approximately 16.7% increment over that of 2012. We also note that the Revised CPP Purchase Caps for each of the two years ending 31 December 2012 represented a slight increase of approximately 9.4% and 10.0%, respectively, over the then approved annual caps of HK$2,953.4 million and HK$3,395.5 million respectively pursuant to the Master CPP Purchase Agreement dated 18 October 2010, the increment of which, as advised by the Company, was mainly attributable to the expected purchase of the CPP Purchase Products by the Target Group after the Completion and the recently acquired C.P. Aquaculture (Yangjiang) Co., Ltd. and the additional feed mill leased by the Company as announced on 25 May 2011.

To assess the fairness and reasonableness of the Revised CPP Purchase Caps, we have discussed and reviewed the calculation of the Revised CPP Purchase Caps with the management of the Company. Based on such review and discussion, we understand that the Revised CPP Purchase Caps are determined based on the respective annual purchase of the CPP Purchase Products by individual members of the Enlarged Group and that the Directors have taken into account the following principal factors when determining the Revised CPP Purchase Caps: (i) the historical amounts of the purchases of the CPP Purchase Products by CPVL and the CPP Group from CPT and/or its related entities for each of the three years ended 31 December 2010 and the four months ended 30 April 2011; (ii) the existing annual caps under the Master CPP Purchase Agreement, which was previously approved by the then independent Shareholders; and (iii) the expansion of the scope of transactions under the Revised Master CPP Purchase Agreement due to the inclusion of the purchase of the CPP Purchase Products by CPVL from CPT and/or its related entities upon the Completion, and the aforementioned purchase of the CPP Purchase Products by the recently acquired C.P. Aquaculture (Yangjiang) Co., Ltd. and the recently leased feed mill.

We also note that the historical transaction amount for the four months ended 30 April 2011 was materially lower than the proposed annual cap for 2011 on a pro-rata basis. As advised by the Company, the CPP Group purchases raw materials from independent third party suppliers and/or CPT and/or its related entities, subject to terms offered to the CPP Group. For the four months ended 30 April 2011, the CPP Group shifted its orders to independent suppliers given competitive prices offered by independent suppliers as compared to those offered by CPT and/or its related entities, which resulted in the low transaction amounts during the period. The Company considers it to be in its interest and benefits to provide for the possibility of the increase in purchases from CPT and/or its related entities if prices offered by them are competitive when determining the Revised CPP Purchase Caps. We also note that the Revised CPP Purchase Caps represent only approximately 21%, 24% and 28% of cost of sales of the CPP Group in 2010 on a pro-rata basis.

Taking into account of the above, we consider that the basis for determining the Revised CPP Purchase Caps is justifiable and the Revised CPP Purchase Caps are fair and reasonable so far as the Company and the Shareholders are concerned.

However, Shareholders should note that the Proposed Annual Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the respective Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual transaction amounts of the relevant Continuing Connected Transactions correspond with the Proposed Annual Caps as discussed above.

***(IV) Requirements by the Listing Rules regarding the Continuing Connected Transactions***

As required by the Listing Rules, for each financial year of the Company over the term of the Revised CCT Agreements, the Continuing Connected Transactions shall be subject to the annual review by the independent non-executive Directors and the Company's auditors as required by Rules 14A.37 and 14A.38 of the Listing Rules, respectively. In particular, each year, the independent non-executive Directors must confirm that the Continuing Connected Transactions have been entered into:

- in the ordinary and usual course of business of the CPP Group;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, each year, the Company's auditors must provide a letter to the Board confirming that the Continuing Connected Transactions:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
- have been entered into in accordance with the relevant agreements governing the transactions; and
- have not exceeded the caps disclosed in the previous announcement(s).

Given the above, we consider that there exist appropriate procedures and arrangements to confirm whether the Continuing Connected Transactions will be conducted on terms pursuant to the Revised CCT Agreements.

***(V) Recommendation on the Continuing Connected Transactions***

Having considered the principal factors and reasons referred to above, in particular,

– the purpose of the Revised CCT Agreements is to regulate the ongoing transactions between the Enlarged Group and OSIL and CPT (as the case may be) following Completion;
– the nature of the Continuing Connected Transactions;
– the pricing principles stipulated in the Revised CCT Agreements are fair and reasonable;
– the basis of determination of the Proposed Annual Caps is fair and reasonable; and
– there exist appropriate procedures and arrangements to confirm whether the Continuing Connected Transactions will be conducted on terms pursuant to the Revised CCT Agreements,

we consider that (i) the Continuing Connected Transactions contemplated under the Revised CCT Agreements fall in the ordinary and usual course of business of the CPP Group and are in the interests of the CPP Group and the Shareholders as a whole; (iii) the terms of the Revised CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned; and (iv) the Proposed Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Revised CCT Agreements and the Continuing Connected Transactions contemplated thereunder and the Proposed Annual Caps.

Yours faithfully,
For and on behalf of
**CIMB Securities (HK) Limited**

| | |
|---|---|
| **Alex Lau** | **Heidi Cheng** |
| *Head* | *Deputy Head* |
| *Corporate Finance* | *Corporate Finance* |

## I. FINANCIAL INFORMATION

Financial information of the CPP Group for each of the three years ended 31 December 2010 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.cpp.hk):

(i) annual report of the Company for the year ended 31 December 2008 (pages 49 to 163);

(ii) annual report of the Company for the year ended 31 December 2009 (pages 50 to 143); and

(iii) annual report of the Company for the year ended 31 December 2010 (pages 60 to 167).

## II. INDEBTEDNESS

As at 30 April 2011 being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding secured and unsecured borrowings of approximately US$32.0 million and US$610.1 million, respectively.

As at 30 April 2011 the Enlarged Group issued guarantees of approximately US$80.8 million for credit line granted to jointly-controlled entities and related companies.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities and normal accounts payable and bills payables in the ordinary course of business, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital and overdrafts or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance of acceptance credits or any guarantees of other material contingent liabilities as at the close of business on 30 April 2011.

## III. WORKING CAPITAL SUFFICIENCY

The Directors are of the opinion that, after taking into account the financial resources available to the Enlarged Group and its internal generated funds, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next twelve months from the date of this circular.

## IV. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Board confirmed that there was no material adverse change in the financial or trading position or outlook of the CPP Group since 31 December 2010, the date to which the latest published audited consolidated financial statements of the CPP Group were made up.

ERNST & YOUNG
安 永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環金融街8號
國際金融中心2期18樓
電話: +852 2846 9888
傳真: +852 2868 4432

21 June 2011

The Board of Directors
C.P. POKPHAND CO. LTD.

Dear Sirs,

We set out below our report on the combined financial information (the "Combined Financial Information") of Modern State Investments Limited ("Modern State") and its subsidiary (hereinafter collectively referred to as the "Modern State Group"), prepared on the basis as set out in note 2 of Section II, for inclusion in the circular of C.P. POKPHAND CO. LTD. (the "Company") dated 21 June 2011 (the "Circular") in connection with the proposed acquisition of the entire equity interest in Modern State (the "Proposed Acquisition") by the Company pursuant to an acquisition agreement dated 30 May 2011 made between the Company and CPG Overseas Company Limited ("CPG Overseas") (the "Acquisition Agreement").

The Combined Financial Information comprises the combined statements of financial position of the Modern State Group and the statements of financial position of Modern State as at 31 December 2008, 2009 and 2010, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Modern State Group for each of the three years ended 31 December 2008, 2009 and 2010 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes.

Modern State, wholly owned indirectly by Charoen Pokphand Group Company Limited which is owned as to 51.31% by the controlling shareholders of the Company, was incorporated in the British Virgin Islands with limited liability on 18 October 2007 and is engaged in investment holding. The financial statements of Modern State for the years ended 31 December 2008, 2009 and 2010 were audited by S.M. Office Company Limited, certified public accountants registered in Thailand.

Pursuant to a group reorganisation as detailed in note 1 of Section II, the reorganised Modern State Group will be principally engaged in the feed, integrated livestock and aquaculture operations in Vietnam. As at the date of this report, Modern State had a direct interest in the subsidiary set out in note 1 of Section II.

Modern State's subsidiary, C.P. Vietnam Livestock Corporation ("CPVL"), was established in Vietnam and has adopted 31 December as its financial year end date for statutory reporting and management reporting purposes, and its financial statements and/or management accounts have been prepared in accordance with accounting principles generally accepted in Vietnam. For the Proposed Acquisition, CPVL has prepared, using the merger accounting to account for the merger set out in details in note 1.1(a) of Section II, financial statements for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRS"), which were audited by Ernst & Young Vietnam Limited (the "CPVL Underlying Audited IFRS Financial Statements").

For the purpose of this report, the directors of Modern State have prepared the Combined Financial Information for each of the Relevant Periods in accordance with the accounting policies set out in note 2.5 of Section II which conform with IFRS. The directors of Modern State are responsible for the preparation and the true and fair presentation of the Combined Financial Information reflecting the combined results of the feed, integrated livestock and aquaculture operations and the financial positions of the Modern State Group. Further details of the basis of presentation are included in note 2.1 of Section II.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Combined Financial Information and for the contents of the Circular in which this report is included. In preparing the Combined Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable. It is our responsibility to form an independent opinion, based on our review, on the Combined Financial Information, and to report our opinion thereon to you.

## PROCEDURES PERFORMED IN RESPECT OF THE COMBINED FINANCIAL INFORMATION

The Combined Financial Information has been prepared from the CPVL Underlying Audited IFRS Financial Statements and the audited statutory financial statements of Modern State for the Relevant Periods on the basis set out in note 2 of Section II. For the purpose of this report, we have examined the above audited financial statements and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline No. 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants.

## OPINION IN RESPECT OF THE COMBINED FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of presentation and preparation as set out in note 2 of Section II, the Combined Financial Information gives a true and fair view of the state of affairs of the Modern State Group and Modern State as at 31 December 2008, 2009 and 2010 and of the combined results and cash flows of the Modern State Group for each of the Relevant Periods.

## I. COMBINED FINANCIAL INFORMATION

### Combined Statements of Comprehensive Income

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2008** | **2009** | **2010** |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* |
| CONTINUING OPERATIONS | | | | |
| REVENUE | 4 | 835,414 | 869,441 | 1,046,486 |
| Cost of sales | 5 | (727,403) | (742,802) | (914,139) |
| Gross profit | | 108,011 | 126,639 | 132,347 |
| Unrealised gain on fair value adjustments of livestock | 8 | 8,048 | 23,834 | 23,318 |
| | | 116,059 | 150,473 | 155,665 |
| Selling and distribution costs | | (14,994) | (14,826) | (13,355) |
| General and administrative expenses | | (15,627) | (19,001) | (20,061) |
| Technical service fee | | (24,585) | (25,522) | (30,878) |
| Other income | 6 | 446 | 2,073 | 1,768 |
| Other losses | | (8,242) | (8,604) | (6,337) |
| Finance costs | 7 | (17,206) | (10,926) | (25,861) |
| PROFIT BEFORE TAX | | 35,851 | 73,667 | 60,941 |
| Tax | 13 | (8,885) | (13,961) | (11,235) |
| PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS | 8 | 26,966 | 59,706 | 49,706 |
| DISCONTINUED OPERATION | | | | |
| Profit for the year from a discontinued operation attributable to equity holders of Modern State | 11 | – | – | 1,873 |
| PROFIT FOR THE YEAR | | 26,966 | 59,706 | 51,579 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Exchange differences on translation of foreign operations | | (13,195) | (11,477) | (11,214) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 13,771 | 48,229 | 40,365 |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | *US$'000* | *US$'000* | *US$'000* |
| Profit from continuing operations attributable to: | | | |
| Equity holders of Modern State | 23,314 | 41,044 | 34,386 |
| Non-controlling interests | 3,652 | 18,662 | 15,320 |
| | 26,966 | 59,706 | 49,706 |
| Profit attributable to: | | | |
| Equity holders of Modern State | 23,314 | 41,044 | 36,259 |
| Non-controlling interests | 3,652 | 18,662 | 15,320 |
| | 26,966 | 59,706 | 51,579 |
| Total comprehensive income attributable to: | | | |
| Equity holders of Modern State | 14,549 | 31,844 | 28,460 |
| Non-controlling interests | (778) | 16,385 | 11,905 |
| | 13,771 | 48,229 | 40,365 |

**Combined Statements of Financial Position**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2008** | **2009** | **2010** |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 16 | 123,888 | 149,478 | 157,305 |
| Land lease prepayments | 17 | 378 | 1,017 | 5,040 |
| Non-current livestock | 18 | 17,817 | 22,674 | 29,195 |
| Intangible assets | 19 | 1,790 | 1,286 | 1,987 |
| Long term deposits | | 147 | 36 | 42 |
| Deferred tax assets | 20 | 649 | – | – |
| Total non-current assets | | 144,669 | 174,491 | 193,569 |
| CURRENT ASSETS | | | | |
| Land lease prepayments | 17 | 1,462 | 1,281 | 1,605 |
| Inventories | 21 | 114,355 | 164,481 | 225,567 |
| Current livestock | 18 | 65,547 | 78,514 | 98,527 |
| Accounts receivable, other receivables and deposits | 22 | 53,442 | 33,712 | 59,766 |
| Cash and cash equivalents | 23 | 12,292 | 42,347 | 15,621 |
| Total current assets | | 247,098 | 320,335 | 401,086 |
| CURRENT LIABILITIES | | | | |
| Accounts payable, other payables and accrued expenses | 24 | 60,073 | 86,553 | 80,143 |
| Tax payable | | 2,403 | 3,760 | 5,005 |
| Interest-bearing bank and other borrowings | 25 | 154,963 | 178,267 | 288,187 |
| Total current liabilities | | 217,439 | 268,580 | 373,335 |
| NET CURRENT ASSETS | | 29,659 | 51,755 | 27,751 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 174,328 | 226,246 | 221,320 |
| NON-CURRENT LIABILITIES | | | | |
| Interest-bearing bank and other borrowings | 25 | 15,127 | 17,247 | 10,995 |
| Provision for severance allowance | | 1,842 | 1,980 | 2,226 |
| Deferred tax liabilities | 20 | – | 1,431 | 2,159 |
| Total non-current liabilities | | 16,969 | 20,658 | 15,380 |
| Net assets | | 157,359 | 205,588 | 205,940 |

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2008** | **2009** | **2010** |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* |
| EQUITY | | | | |
| Equity attributable to equity holders of Modern State | | | | |
| Issued capital | 26 | – | – | 6,179 |
| Reserves | 27 | 114,715 | 140,590 | 138,135 |
| | | 114,715 | 140,590 | 144,314 |
| Non-controlling interests | | 42,644 | 64,998 | 61,626 |
| Total equity | | 157,359 | 205,588 | 205,940 |

**Statements of Financial Position of Modern State**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2008** | **2009** | **2010** |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* |
| NON-CURRENT ASSET | | | | |
| Available-for-sale investment | 15 | 7,362 | 7,362 | 7,362 |
| Total non-current asset | | 7,362 | 7,362 | 7,362 |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 23 | 6 | – | 3,689 |
| Total current assets | | 6 | – | 3,689 |
| CURRENT LIABILITIES | | | | |
| Other payables and accrued expenses | | 231 | 114 | – |
| Interest-bearing other borrowings | 25 | 7,367 | 7,617 | – |
| Total current liabilities | | 7,598 | 7,731 | – |
| NET CURRENT ASSETS/(LIABILITIES) | | (7,592) | (7,731) | 3,689 |
| Net assets/(liabilities) | | (230) | (369) | 11,051 |
| EQUITY | | | | |
| Issued capital | 26 | – | – | 6,179 |
| Retained profits/(accumulated losses) | | (230) | (369) | 4,872 |
| Total equity/(deficiency in assets) | | (230) | (369) | 11,051 |

**Combined Statements of Changes in Equity**

| | Attributable to equity holders of Modern State | | | | | | |
|---|---|---|---|---|---|---|---|
| | Issued capital *US$'000* | Other capital reserve *US$'000* *(note 27 (a)(ii))* | Exchange equalisation reserve *US$'000* | Retained profits/ (accumulated losses) *US$'000* | Total *US$'000* | Non-controlling interests *US$'000* | Total equity *US$'000* |
| At 1 January 2008 | – | 54,739 | (4,811) | 50,238 | 100,166 | 43,422 | 143,588 |
| Profit for the year | – | – | – | 23,314 | 23,314 | 3,652 | 26,966 |
| Exchange difference on translation of foreign operations | – | – | (8,765) | – | (8,765) | (4,430) | (13,195) |
| Total comprehensive income for the year | – | – | (8,765) | 23,314 | 14,549 | (778) | 13,771 |
| At 31 December 2008 and 1 January 2009 | – | 54,739* | (13,576)* | 73,552* | 114,715 | 42,644 | 157,359 |
| Profit for the year | – | – | – | 41,044 | 41,044 | 18,662 | 59,706 |
| Exchange difference on translation of foreign operations | – | – | (9,200) | – | (9,200) | (2,277) | (11,477) |
| Total comprehensive income for the year | – | – | (9,200) | 41,044 | 31,844 | 16,385 | 48,229 |
| Transfer arising from merger of a subsidiary | – | 38,274 | – | (44,243) | (5,969) | 5,969 | – |
| At 31 December 2009 and 1 January 2010 | – | 93,013* | (22,776)* | 70,353* | 140,590 | 64,998 | 205,588 |
| Profit for the year | – | – | – | 36,259 | 36,259 | 15,320 | 51,579 |
| Exchange difference on translation of foreign operations | – | – | (7,799) | – | (7,799) | (3,415) | (11,214) |
| Total comprehensive income for the year | – | – | (7,799) | 36,259 | 28,460 | 11,905 | 40,365 |
| Issue of shares *(note 26)* | 6,179 | – | – | – | 6,179 | – | 6,179 |
| Capitalisation by a subsidiary | – | 26,992 | – | (26,992) | – | – | – |
| Dividend paid | – | – | – | (30,915) | (30,915) | (15,277) | (46,192) |
| At 31 December 2010 | 6,179 | 120,005* | (30,575)* | 48,705* | 144,314 | 61,626 | 205,940 |

* These reserve accounts comprise the combined reserves of US$114,715,000, US$140,590,000 and US$138,135,000 in the combined statements of financial position as at 31 December 2008, 2009 and 2010, respectively.

**Combined Cash Flow Statements**

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2008** | **2009** | **2010** |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Profit before tax: | | | | |
| From continuing operations | | 35,851 | 73,667 | 60,941 |
| From a discontinued operation | | – | – | 1,873 |
| | | 35,851 | 73,667 | 62,814 |
| Adjustments for: | | | | |
| Bank interest income | 6 | (446) | (1,240) | (557) |
| Finance costs | 7 | 17,206 | 10,926 | 25,861 |
| Unrealised gain on fair value adjustments of livestock | 8 | (8,048) | (23,834) | (23,318) |
| Depreciation of items of property, plant and equipment | 8 | 10,434 | 10,880 | 14,005 |
| Amortisation of land lease prepayments | 8 | 631 | 1,150 | 1,873 |
| Amortisation of intangible assets | 8 | 215 | 490 | 536 |
| Loss on disposal of items of property, plant and equipment, net | 8 | 361 | 5 | 72 |
| Loss on culling of livestock | 8 | 14,737 | 16,522 | 18,318 |
| Provision against inventories | 8 | 2,102 | 1,065 | – |
| Impairment of current livestock | 8 | 140 | 286 | 204 |
| Impairment of accounts receivable | 8 | 2,434 | 1,210 | 950 |
| | | 75,617 | 91,127 | 100,758 |
| Increase in land lease prepayments | | (1,196) | (1,733) | (6,414) |
| Increase in inventories | | (13,099) | (59,633) | (70,873) |
| Decrease/(increase) in livestock | | (12,898) | 4,790 | (2,961) |
| Increase in provision for severance allowance | | 513 | 254 | 356 |
| Decrease/(increase) in accounts receivable, other receivables and deposits | | (21,799) | 15,837 | (29,232) |
| Decrease/(increase) in long term deposits | | 936 | 105 | (8) |
| Increase/(decrease) in accounts payable, other payables and accrued expenses | | (4,177) | 30,090 | (1,978) |
| Cash generated from/(used in) operations | | 23,897 | 80,837 | (10,352) |
| Tax paid | | (8,603) | (9,498) | (8,809) |
| Interest paid | | (17,206) | (10,926) | (25,861) |
| Net cash inflow/(outflow) from operating activities | | (1,912) | 60,413 | (45,022) |

| | Notes | 2008 US$'000 | 2009 US$'000 | 2010 US$'000 |
|---|---|---|---|---|
| | | Year ended 31 December | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchases of items of property, plant and equipment | 16 | (60,227) | (44,867) | (30,051) |
| Proceeds from disposal of items of property, plant and equipment | | 109 | 85 | 32 |
| Additions to non-current livestock | 18 | (18,350) | (21,232) | (24,617) |
| Additions to intangible assets | 19 | (1,622) | (80) | (1,317) |
| Decrease/(increase) in time deposits with maturity of more than three months when acquired | | (535) | 59 | 234 |
| Interest received | | 446 | 1,240 | 557 |
| Net cash outflow from investing activities | | (80,179) | (64,795) | (55,162) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from issue of shares | 26 | – | – | 6,179 |
| New bank and other borrowings | | 406,770 | 476,239 | 728,221 |
| Repayment of bank and other borrowings | | (334,478) | (440,153) | (612,693) |
| Dividend paid | | – | – | (46,192) |
| Net cash inflow from financing activities | | 72,292 | 36,086 | 75,515 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | (9,799) | 31,704 | (24,669) |
| Effect of exchange rate changes, net | | 1,891 | (1,616) | (1,797) |
| Cash and cash equivalents at beginning of year | | 19,665 | 11,757 | 41,845 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 11,757 | 41,845 | 15,379 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | | |
| Cash and bank balances | 23 | 8,305 | 9,584 | 14,887 |
| Time deposits | 23 | 3,987 | 32,763 | 734 |
| Cash and cash equivalents as stated in the combined statements of financial position | | 12,292 | 42,347 | 15,621 |
| Less: Time deposits with maturity of more than three months when acquired | | (535) | (502) | (242) |
| | | 11,757 | 41,845 | 15,379 |

## II. NOTES TO THE COMBINED FINANCIAL INFORMATION

### 1.1 CORPORATE INFORMATION AND RESTRUCTURING

Modern State was incorporated in the British Virgin Islands with limited liability on 18 October 2007 and is engaged in investment holding. The address of the registered office of Modern State is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

As at the date of this report, in the opinion of the directors of Modern State, the immediate and ultimate holding companies of Modern State are Orient Success International Limited ("OSIL") and Charoen Pokphand Group Company Limited ("CPG"), companies incorporated in the British Virgin Islands and Thailand, respectively.

During and subsequent to the Relevant Periods, Modern State and CPVL underwent the following reorganisation (the "Reorganisation") and as a result, Modern State becomes the immediate holding company of CPVL at the date of completion of the Reorganisation.

**(a) Merger of CPVL and Charoen Pokphand Vietnam Corporation ("CPVN")**

On 12 February 2009, CPVL, a 58.24% owned subsidiary of CPG, and CPVN, an indirectly wholly-owned subsidiary of CPG, entered into a merger agreement, pursuant to which CPVL agreed to allot and issue 33,111,836 new ordinary shares to the shareholders of CPVN as the consideration for the entire equity interest in CPVN. This merger transaction was completed on 31 August 2009 and all the assets and liabilities of CPVN were merged into CPVL. CPVN was de-registered after completion of the above merger transaction.

**(b) Acquisition of Modern State by Worth Access Trading Limited ("Worth Access") and OSIL**

On 22 November 2010, Worth Access, an indirectly wholly-owned subsidiary of CPG, acquired a 100% equity interest in Modern State from CPG. On 3 June 2011, OSIL, an indirectly wholly-owned subsidiary of CPG, acquired from Worth Access a 100% equity interest in Modern State, and OSIL became the immediate holding company of Modern State.

**(c) Acquisition of a 62.70% equity interest in CPVL by Modern State**

Pursuant to the share transfer agreements entered into on 17 February 2011 by Modern State with CPG, Advance Pharma Company Limited ("ADV"), Charoen Pokphand Enterprise Company Limited ("CPE"), Worth Access and BSI Holding Company Limited ("BSIH") (collectively the "Vendors"), and with CF Enterprise Limited ("CF"), Modern State acquired an aggregated 61.41% and 1.29% equity interest in CPVL from the Vendors and CF, respectively, at a total cash consideration of approximately US$104.5 million. The acquisition was completed on 25 March 2011, resulting in Modern State's equity interest in CPVL was increased from 8.12% to 70.82%. ADV, CPE, Worth Access and BSIH are directly or indirectly controlled by CPG.

As at the date of this report, the particulars of the subsidiary of Modern State, an investment holding company, are set out below:

| Name of company | Nominal value of issued share capital | Place of incorporation and operations | Percentage of equity capital held | Principal activities |
|---|---|---|---|---|
| C.P. Vietnam Livestock Corporation | VND1,741,792 millions | Vietnam | 70.82% | Feed, integrated livestock and aquaculture operations |

The statutory financial statements of CPVL for the year ended 31 December 2008 was audited by BDO Vietnam Limited, certified public accountants registered in Vietnam. The statutory financial statements of CPVL for the years ended 31 December 2009 and 2010 were audited by Ernst & Young Vietnam Limited, certified public accountants registered in Vietnam.

The statutory financial statements of CPVN for the year ended 31 December 2008 was audited by BDO Vietnam Limited, certified public accountants registered in Vietnam. CPVN was merged into CPVL, and was then de-registered, in 2009 and, therefore, no statutory financial statements was issued for the years ended 31 December 2009 and 2010.

**2.1 BASIS OF PRESENTATION**

The Reorganisation involved companies under common control and the Modern State Group is regarded and accounted for as the continuing group. Accordingly, for the purpose of this report, the Combined Financial Information as set out in this report has been prepared on a combined basis by applying the principles of merger accounting.

The Combined Financial Information has been prepared as if the current Modern State Group structure had been in existence throughout the Relevant Periods.

**2.2 BASIS OF PREPARATION**

The Combined Financial Information has been prepared in accordance with IFRS which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"). All IFRS effective for the accounting periods commencing from 1 January 2010, together with the relevant transactional provisions, have been early adopted by the Modern State Group in the preparation of the Combined Financial Information throughout the Relevant Periods. The Combined Financial Information has been prepared under the historical cost convention, except for certain livestock which have been measured at fair value as explained below. The Combined Financial Information is presented in United States dollars ("US$").

**2.3 BASIS OF COMBINATION**

The Combined Financial Information incorporates the CPVL Underlying Audited IFRS Financial Statements and the audited statutory financial statements of Modern State. As explained in notes 1.1(a), (b), (c) and 2.1 of Section II, the merger of CPVL and CPVN and the acquisition of the subsidiary under common control have been accounted for using the merger method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The combined statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated on combination in full.

Non-controlling interests represent the interests of outside shareholders not held by the Modern State Group in the results and net assets of Modern State's subsidiary, CPVL.

When the Modern State Group acquires or disposes of non-controlling interests of its subsidiary, the difference between the amount of consideration and carrying value of non-controlling interests is recognised as a reserve movement.

**2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRS**

The Modern State Group has not applied the following new and revised IFRS that have been issued but are not yet effective, in the Combined Financial Information:

| | |
|---|---|
| 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 | Amendments 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 14 Amendments | Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3] |
| IFRIC 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 IFRS 2010* which sets out amendments to a number of IFRS 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 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Subsidiary**

A subsidiary is an entity whose financial and operating policies Modern State controls, directly or indirectly, so as to obtain benefits from its activities.

The results of the subsidiary are included in Modern State's profit or loss to the extent of dividends received and receivables. Modern State's investment in the subsidiary is stated at cost less any impairment losses.

**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 Modern State Group, liabilities assumed by the Modern State Group to the former owners of the acquiree and the equity interests issued by the Modern State 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 Modern State 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 will be 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 Modern State 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 Modern State Group's cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Modern State Group are assigned to those units or groups of units.

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.

*Business combinations 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 Modern State 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 Modern State 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.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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, 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 each reporting date 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 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.

**Related parties**

A party is considered to be related to the Modern State 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 Modern State Group; (ii) has an interest in the Modern State Group that gives it significant influence over the Modern State Group; or (iii) has joint control over the Modern State Group;

(b) the party is an associate or a jointly-controlled entity;

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

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

(e) 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 (c) or (d).

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, 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 property, plant and equipment are required to be replaced at intervals, the Modern State Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | 6.67% |
| Plant and machinery | 10% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles and transport facilities | 11% to 20% |

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

An item of 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.

Construction in progress represents the construction of feed mills, 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.

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are all assessed to be finite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on 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 period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Computer software is stated at cost less any accumulated impairment losses and is amortised on the straight-line basis over its estimated useful life of 4 years.

**Livestock**

The livestock of the Modern State Group include swine and poultry.

Livestock are measured on initial recognition and at the end of each reporting period at their fair values less estimated costs to sell, except where the fair value cannot be measured reliably, in which case it is stated at cost less accumulated amortisation and any impairment losses.

The cost of an item of livestock comprises its purchase price and any costs attributable in raising the item of livestock.

For livestock stated at cost less accumulated amortisation, the amortisation is computed using the straight-line method over the expected useful lives of the livestock. The expected useful life of livestock is reviewed annually based on expected utilisation as anchored to business plans and strategies that consider market behaviour to ensure that the period of amortisation is consistent with the expected pattern of economic benefits from the livestock.

The carrying values of livestock are reviewed for impairment when events or changes in the circumstances indicate that the carrying values may not be recoverable.

Gains or losses arising from initial recognition of livestock at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of livestock are included in profit or loss in the period in which it arises.

**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 Modern State 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 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 in the scope of IAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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 Modern State 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 Modern State Group's financial assets include cash and bank balances, accounts and other receivables.

*Subsequent measurement*

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

*Loans and receivables*

Accounts and other 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 losses.

*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 Company evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Company 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 Company 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 Company 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.

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 where:

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

When the Modern State 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 Modern State Group's continuing involvement in the asset. In that case, the Modern State 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 Modern State 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 Modern State Group could be required to repay.

**Impairment of financial assets**

The Modern State 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 Modern State 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 Modern State 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 and all collateral has been realised or has been transferred to the Modern State Group.

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.

*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 Company 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 Modern State Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value less directly attributable transaction costs.

The Modern State Group's financial liabilities include accounts and other payables, accrued expenses and interest-bearing bank and other borrowings.

*Subsequent measurement*

After initial recognition, interest-bearing bank and other 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.

*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.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis, and option pricing model.

**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 combined cash flow statement, 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 Modern State Group's cash management.

For the purpose of the combined statements 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 reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

**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 Modern State 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 investment in a subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax 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 a subsidiary, 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Modern State 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 Modern State Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) 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; and

(c) technical service fee income, when the services were rendered.

**Other employee benefits**

*Provision for severance allowance*

The severance pay to employees is accrued at the end of each reporting period for Vietnamese employees who have more than 12 months in service up to 31 December 2008 at the rate of one-half of the average monthly salary for each year of service up to 31 December 2008 in accordance with the Labour Code, the Law on Social Insurance and related implementing guidance. Commencing 1 January 2009, the average monthly salary used in this calculation is revised at the end of each reporting period using the average monthly salary of the 6-month period up to the reporting date. Any changes to the accrued amount is recognised to profit or loss.

**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 combined 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.

Interim dividends are simultaneously proposed and declared, because Modern State's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**Foreign currency transactions**

The Combined Financial Information is presented in US$, which is Modern State's functional and presentation currency. Each entity in the Modern State 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 are initially recorded using the 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 reporting date. 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 currency of Modern State's subsidiary CPVL established in Vietnam is Vietnamese Dong. As at the reporting date, the assets and liabilities of CPVL are translated into the presentation currency of Modern State at the exchange rate ruling at the end of the reporting period and CPVL's statement of comprehensive income is translated into US$ at the weighted average exchange rate for the year. The resulting exchange differences are included in other comprehensive income and accumulated in the exchange equalisation 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.

For the purpose of the combined cash flow statement, the cash flows of the subsidiary are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiary which arise throughout the year are translated into US$ at the weighted average exchange rate for the year.

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Modern State Group's Combined Financial Information 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 Modern State 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 Combined Financial Information:

*Depreciation and amortisation*

The Modern State 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 6.67% to 20% per annum, commencing from the date the property, plant and equipment is placed into productive use. The estimated useful lives and the dates that the Modern State Group places the property, plant and equipment into productive use reflect the directors' estimate of the periods that Modern State Group intends to derive future economic benefits from the use of Modern State Group's property, plant and equipment.

*Impairment of trade receivables*

The policy for provision for impairment loss of the Modern State Group is based on the evaluation of collectability and the ageing analysis of the trade receivables 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 Modern State 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 the Modern State Group reviews the ageing analysis of its inventories at each reporting date, and makes allowance for obsolete and slow-moving inventory items identified as 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 Modern State 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 other than goodwill*

The Modern State Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. 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 set out in note 33 to the Combined Financial Information.

*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. 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 Modern State Group's management estimates future cash flows from the cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

*Fair values less estimated costs to sell of livestock*

The fair values of livestock are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, non-refundable transfer taxes and duties, but exclude transport and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates.

The fair value of livestock and gain or loss on changes in fair value are set out in note 18.

*Deferred tax assets*

Deferred tax assets relating to certain temporary differences are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences 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 amounts of deferred tax assets as at 31 December 2008, 2009 and 2010 were US$649,000, nil and nil, respectively. Further details are set out in note 20 to the Combined Financial Information.

## 4. REVENUE

Revenue, which is also the Modern State Group's turnover, represents the net invoiced value of sales after allowances for goods returned and trade discounts, and after elimination of intra-group transactions.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Sales to external customers: | | | |
| Agro sales | 643,584 | 704,415 | 841,610 |
| Aquaculture sales | 191,830 | 165,026 | 204,876 |
| | 835,414 | 869,441 | 1,046,486 |

## 5. COST OF SALES

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | *US$'000* | *US$'000* | *US$'000* |
| Cost of sales from agro business: | | | |
| Cost | 526,079 | 570,892 | 708,033 |
| Realised fair value changes of livestock | 14,194 | 13,149 | 20,917 |
| | 540,273 | 584,041 | 728,950 |
| Cost of sales from aquaculture business | 187,130 | 158,761 | 185,189 |
| | 727,403 | 742,802 | 914,139 |

## 6. OTHER INCOME

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | *US$'000* | *US$'000* | *US$'000* |
| Bank interest income | 446 | 1,240 | 557 |
| Technical service fee | – | – | 1,873 |
| Others | – | 833 | 1,211 |
| | 446 | 2,073 | 3,641 |
| Attributable to continuing operations reported in combined statements of comprehensive income | 446 | 2,073 | 1,768 |
| Attributable to a discontinued operation | – | – | 1,873 |
| | 446 | 2,073 | 3,641 |

## 7. FINANCE COSTS

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | *US$'000* | *US$'000* | *US$'000* |
| Interest expense on bank and other borrowings wholly repayable within five years | 19,762 | 13,144 | 26,721 |
| Less: Interest capitalised | (2,556) | (2,218) | (860) |
| | 17,206 | 10,926 | 25,861 |

## 8. PROFIT BEFORE TAX

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

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | 2008 | 2009 | 2010 |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* |
| Auditors' remuneration | | – | 150 | 450 |
| Depreciation | 16 | 10,434 | 10,880 | 14,005 |
| Amortisation of land lease prepayments | 17 | 631 | 1,150 | 1,873 |
| Amortisation of intangible assets | 19 | 215 | 490 | 536 |
| Impairment of accounts receivable | 22 | 2,434 | 1,210 | 950 |
| Provision against inventories | | 2,102 | 1,065 | – |
| Impairment of current livestock | 18 | 140 | 286 | 204 |
| Unrealised loss/(gain) arising from changes in fair value of livestock: | | | | |
| Non-current | 18 | 2,845 | 1,863 | 2,467 |
| Current | 18 | (10,893) | (25,697) | (25,785) |
| | | (8,048) | (23,834) | (23,318) |
| Loss on disposal of items of property, plant and equipment, net | | 361 | 5 | 72 |
| Loss on culling of livestock: | | | | |
| Non-current | 18 | 5,047 | 6,966 | 7,641 |
| Current | 18 | 9,690 | 9,556 | 10,677 |
| | | 14,737 | 16,522 | 18,318 |
| Minimum lease payments under operating leases in respect of buildings | | 1,101 | 1,348 | 1,249 |
| Employee benefit expense: | | | | |
| Wages and salaries | | 36,259 | 50,137 | 65,260 |
| Severance allowance | | 635 | 409 | 495 |
| | | 36,894 | 50,546 | 65,755 |
| Foreign exchange differences, net | | 8,176 | 8,604 | 6,337 |

## 9. DIRECTORS' REMUNERATION

No directors of Modern State received any fees or emoluments in respect of their services rendered to the Modern State Group.

There was no arrangement under which a director of Modern State waived or agreed to waive any remuneration.

**10. FIVE HIGHEST PAID EMPLOYEES**

The remuneration of the five highest paid employees during the Relevant Periods was analysed as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Salaries, allowances and benefits in kind | 271 | 592 | 717 |
| Bonuses paid and payable | 67 | 72 | 106 |
| | 338 | 664 | 823 |

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *No. of individuals* | *No. of individuals* | *No. of individuals* |
| Nil to US$128,000 (equivalent to Nil to HK$1,000,000) | 5 | 5 | 5 |

**11. DISCONTINUED OPERATION**

In January 2010, Modern State entered into an agreement with an independent third party to provide business advisory services. As at 31 December 2010, the Modern State Group ceased such activities. No expense was incurred in the provision of the discontinued operation during the year 2010.

**12. OPERATING SEGMENT INFORMATION**

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

(a) The agro business segment represents the manufacturing of feed products for animal, poultry and swine feeding and trading of poultry, swine and related products; and

(b) The aquaculture segment represents the manufacturing of feed products for fish and shrimp feeding and trading of aquatic products and the processing of frozen seafood.

The management of the Modern State Group monitors the results of the Modern State 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 Modern State Group's profit before tax except that finance costs, bank interest income from head office and corporate income as well as head office and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude interest-bearing bank and other 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.

**Year ended 31 December 2010**

| | Agro | Aquaculture | Total |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| **Segment revenue** | | | |
| Sales to external customers | 841,610 | 204,876 | 1,046,486 |
| Intersegment sales | 40,006 | – | 40,006 |
| | 881,616 | 204,876 | 1,086,492 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (40,006) |
| Revenue for the year | | | 1,046,486 |
| **Segment results** | 76,906 | 14,360 | 91,266 |
| *Reconciliation:* | | | |
| Corporate and other unallocated income | | | 594 |
| Corporate and other unallocated expenses | | | (5,058) |
| Finance costs | | | (25,861) |
| Profit before tax from continuing operation | | | 60,941 |
| Other income from a discontinued operation | | | 1,873 |
| | | | 62,814 |
| **Segment assets** | 560,532 | 167,732 | 728,264 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (153,182) |
| Corporate and other unallocated assets | | | 19,573 |
| Total assets | | | 594,655 |
| **Segment liabilities** | 61,500 | 168,845 | 230,345 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (153,182) |
| Corporate and other unallocated liabilities | | | 311,552 |
| Total liabilities | | | 388,715 |
| **Other segment information:** | | | |
| Depreciation and amortisation | 7,707 | 8,707 | 16,414 |
| Impairment of accounts receivable | – | 950 | 950 |
| Provision against inventories | – | – | – |
| Impairment of current livestock | 204 | – | 204 |
| Unrealised gain arising from changes in fair value of livestock | 23,318 | – | 23,318 |
| Capital expenditure* | 13,743 | 17,625 | 31,368 |

**Year ended 31 December 2009**

| | Agro | Aquaculture | Total |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| **Segment revenue** | | | |
| Sales to external customers | 704,415 | 165,026 | 869,441 |
| Intersegment sales | 22,959 | – | 22,959 |
| | 727,374 | 165,026 | 892,400 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (22,959) |
| Revenue for the year | | | 869,441 |
| **Segment results** | 83,940 | 4,224 | 88,164 |
| *Reconciliation:* | | | |
| Corporate and other unallocated income | | | 512 |
| Corporate and other unallocated expenses | | | (4,083) |
| Finance costs | | | (10,926) |
| Profit before tax from continuing operation | | | 73,667 |
| Other income from a discontinued operation | | | – |
| | | | 73,667 |
| **Segment assets** | 487,025 | 131,144 | 618,169 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (124,905) |
| Corporate and other unallocated assets | | | 1,562 |
| Total assets | | | 494,826 |
| **Segment liabilities** | 80,630 | 130,097 | 210,727 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (124,905) |
| Corporate and other unallocated liabilities | | | 203,416 |
| Total liabilities | | | 289,238 |
| **Other segment information:** | | | |
| Depreciation and amortisation | 5,547 | 6,973 | 12,520 |
| Impairment of accounts receivable | – | 1,210 | 1,210 |
| Provision against inventories | – | 1,065 | 1,065 |
| Impairment of current livestock | 286 | – | 286 |
| Unrealised gain arising from changes in fair value of livestock | 23,834 | – | 23,834 |
| Capital expenditure* | 25,531 | 19,416 | 44,947 |

**Year ended 31 December 2008**

| | Agro<br>*US$'000* | Aquaculture<br>*US$'000* | Total<br>*US$'000* |
|---|---|---|---|
| **Segment revenue:** | | | |
| Sales to external customers | 643,584 | 191,830 | 835,414 |
| Intersegment sales | 96,963 | – | 96,963 |
| | 740,547 | 191,830 | 932,377 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (96,963) |
| Revenue for the year | | | 835,414 |
| **Segment results** | 61,487 | (7,489) | 53,998 |
| *Reconciliation:* | | | |
| Corporate and other unallocated income | | | 144 |
| Corporate and other unallocated expenses | | | (1,085) |
| Finance costs | | | (17,206) |
| Profit before tax from continuing operation | | | 35,851 |
| Other income from a discontinued operation | | | – |
| | | | 35,851 |
| **Segment assets** | 378,542 | 123,199 | 501,741 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (113,010) |
| Corporate and other unallocated assets | | | 3,036 |
| Total assets | | | 391,767 |
| **Segment liabilities** | 49,335 | 123,200 | 172,535 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (113,010) |
| Corporate and other unallocated liabilities | | | 174,883 |
| Total liabilities | | | 234,408 |
| **Other segment information:** | | | |
| Depreciation and amortisation | 5,372 | 5,908 | 11,280 |
| Impairment of accounts receivable | – | 2,434 | 2,434 |
| Provision against inventories | – | 2,102 | 2,102 |
| Impairment of current livestock | 140 | – | 140 |
| Unrealised gain arising from changes in fair value of livestock | 8,048 | – | 8,048 |
| Capital expenditure* | 32,294 | 29,555 | 61,849 |

* Capital expenditure consists of additions of property, plant and equipment and intangible assets.

**Geographical information**

Geographic information is not presented since over 90% of the Modern State Group's revenue from external customers is generated in Vietnam and over 90% of the assets of the Modern State Group are located in Vietnam. Accordingly, in the opinion of the directors of Modern State, the presentation of geographical information would provide no additional useful information to the users of the Combined Financial Information.

**Information about major customers**

None of the transactions the Modern State Group made with individual external customers derived revenue amounting to 10% or more of the revenue of the Modern State Group during each of the Relevant Periods.

## 13. INCOME TAX

The statutory corporate income tax ("CIT") rate applicable to the Modern State Group is 25% of taxable profits. However, most of the Modern State Group's branches are entitled to certain CIT incentives depending on their business activities and locations. The incentives include preferential CIT rates ranging from 10% to 20% and full exemption and/or reduced CIT rates for a number of years depending on the year the first taxable profits are earned by the branch and based on the exemption period stipulated in the investment certificate issued by the relevant government authorities in Vietnam.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Current – Vietnam | | | |
| Charge for the year | 10,610 | 11,644 | 9,702 |
| Underprovision in prior years | 150 | 215 | 717 |
| Deferred tax *(note 20)* | (1,875) | 2,102 | 816 |
| | 8,885 | 13,961 | 11,235 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country in which Modern State and its subsidiary are domiciled to the tax expense at the effective tax rate is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Profit before tax | 35,851 | 73,667 | 62,814 |
| Tax at the statutory rate of 25% | 8,963 | 18,417 | 15,704 |
| Lower tax rates enacted by local tax authorities | (355) | (4,799) | (5,348) |
| Adjustment in respect of current tax of previous period | 150 | 215 | 717 |
| Expenses not deductible for tax | 127 | 128 | 162 |
| Tax charge at the effective rate of 17.9%, 19.0% and 24.8% for the year 2008, 2009 and 2010, respectively | 8,885 | 13,961 | 11,235 |

## 14. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to Modern State's Reorganisation as set out in note 1.1 of Section II.

## 15. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represents an 8.12% equity interest in CPVL. Subsequent to the end of the Relevant Periods on 25 March 2011, Modern State acquired an additional 62.70% equity interest in CPVL at a cash consideration of US$104.5 million. Further details of this acquisition are set out in note 1.1(c) of Section II. The funds required for the above acquisition came from the proceeds of the issue of new shares of Modern State as set out in note 26 of Section II.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles and transport facilities | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| **31 December 2008** | | | | | | |
| At 1 January 2008: | | | | | | |
| Cost | 42,674 | 60,217 | 5,455 | 12,115 | 23,599 | 144,060 |
| Accumulated depreciation | (20,725) | (30,000) | (3,765) | (6,014) | – | (60,504) |
| Net carrying amount | 21,949 | 30,217 | 1,690 | 6,101 | 23,599 | 83,556 |
| At 1 January 2008, net of accumulated depreciation | 21,949 | 30,217 | 1,690 | 6,101 | 23,599 | 83,556 |
| Additions | 10,339 | 9,150 | 3,523 | 3,627 | 33,588 | 60,227 |
| Transfer from construction in progress | 196 | 278 | 108 | 235 | (817) | – |
| Disposals | (322) | (56) | (24) | (68) | – | (470) |
| Depreciation provided during the year | (3,163) | (5,517) | (450) | (1,304) | – | (10,434) |
| Exchange realignment | (2,071) | (2,563) | (288) | (602) | (3,467) | (8,991) |
| At 31 December 2008, net of accumulated depreciation | 26,928 | 31,509 | 4,559 | 7,989 | 52,903 | 123,888 |
| At 31 December 2008: | | | | | | |
| Cost | 48,735 | 64,352 | 8,447 | 14,667 | 52,903 | 189,104 |
| Accumulated depreciation | (21,807) | (32,843) | (3,888) | (6,678) | – | (65,216) |
| Net carrying amount | 26,928 | 31,509 | 4,559 | 7,989 | 52,903 | 123,888 |

| | Buildings | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles and transport facilities | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| **31 December 2009** | | | | | | |
| At 1 January 2009: | | | | | | |
| Cost | 48,735 | 64,352 | 8,447 | 14,667 | 52,903 | 189,104 |
| Accumulated depreciation | (21,807) | (32,843) | (3,888) | (6,678) | – | (65,216) |
| Net carrying amount | 26,928 | 31,509 | 4,559 | 7,989 | 52,903 | 123,888 |
| At 1 January 2009, net of accumulated depreciation | 26,928 | 31,509 | 4,559 | 7,989 | 52,903 | 123,888 |
| Additions | 16,590 | 17,144 | 2,178 | 454 | 8,501 | 44,867 |
| Transfer from construction in progress | 366 | 194 | 62 | – | (622) | – |
| Disposals | (53) | (9) | (4) | (24) | – | (90) |
| Depreciation provided during the year | (4,449) | (5,363) | (574) | (494) | – | (10,880) |
| Exchange realignment | (1,950) | (2,208) | (319) | (471) | (3,359) | (8,307) |
| At 31 December 2009, net of accumulated depreciation | 37,432 | 41,267 | 5,902 | 7,454 | 57,423 | 149,478 |
| At 31 December 2009: | | | | | | |
| Cost | 61,834 | 77,201 | 9,997 | 14,067 | 57,423 | 220,522 |
| Accumulated depreciation | (24,402) | (35,934) | (4,095) | (6,613) | – | (71,044) |
| Net carrying amount | 37,432 | 41,267 | 5,902 | 7,454 | 57,423 | 149,478 |
| **31 December 2010** | | | | | | |
| At 1 January 2010: | | | | | | |
| Cost | 61,834 | 77,201 | 9,997 | 14,067 | 57,423 | 220,522 |
| Accumulated depreciation | (24,402) | (35,934) | (4,095) | (6,613) | – | (71,044) |
| Net carrying amount | 37,432 | 41,267 | 5,902 | 7,454 | 57,423 | 149,478 |
| At 1 January 2010, net of accumulated depreciation | 37,432 | 41,267 | 5,902 | 7,454 | 57,423 | 149,478 |
| Additions | 1,358 | 1,043 | 2,688 | 869 | 24,093 | 30,051 |
| Transfer from construction in progress | 22,476 | 33,255 | 1,105 | 355 | (57,191) | – |
| Disposals | (41) | (33) | (26) | (4) | – | (104) |
| Depreciation provided during the year | (5,520) | (7,151) | (806) | (528) | – | (14,005) |
| Exchange realignment | (2,263) | (2,606) | (358) | (402) | (2,486) | (8,115) |
| At 31 December 2010, net of accumulated depreciation | 53,442 | 65,775 | 8,505 | 7,744 | 21,839 | 157,305 |
| At 31 December 2010: | | | | | | |
| Cost | 80,051 | 103,835 | 12,378 | 14,424 | 21,839 | 232,527 |
| Accumulated depreciation | (26,609) | (38,060) | (3,873) | (6,680) | – | (75,222) |
| Net carrying amount | 53,442 | 65,775 | 8,505 | 7,744 | 21,839 | 157,305 |

**17. LAND LEASE PREPAYMENTS**

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| Carrying amount at 1 January | 1,415 | 1,840 | 2,298 |
| Additions | 1,196 | 1,733 | 6,414 |
| Amortisation during the year *(note 8)* | (631) | (1,150) | (1,873) |
| Exchange realignment | (140) | (125) | (194) |
| Carrying amount at 31 December | 1,840 | 2,298 | 6,645 |
| Portion classified as current assets | (1,462) | (1,281) | (1,605) |
| Non-current portion | 378 | 1,017 | 5,040 |

**18. LIVESTOCK**

**Non-current livestock**

| | | At 31 December | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | *US$'000* | *US$'000* | *US$'000* |
| At fair value | 17,817 | 22,674 | 29,195 |

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| | Head | Head | Head |
| Physical quantity of non-current livestock: | | | |
| Swine breeders | 66,204 | 83,317 | 110,180 |

The fair value was determined based on the purchase price approximating to those at the end of reporting period.

A reconciliation of changes in the carrying amount of non-current livestock is as follows:

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| Carrying amount at 1 January | 15,748 | 17,817 | 22,674 |
| Increase due to purchases/raising | 18,350 | 21,232 | 24,617 |
| Unrealised loss arising from changes in fair value less estimated costs to sell, net *(note 8)* | (2,845) | (1,863) | (2,467) |
| Decrease due to: | | | |
| – sales | (6,981) | (6,317) | (6,670) |
| – culling *(note 8)* | (5,047) | (6,966) | (7,641) |
| Exchange realignment | (1,408) | (1,229) | (1,318) |
| Carrying amount at 31 December | 17,817 | 22,674 | 29,195 |

**Current livestock**

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| At fair value | 54,593 | 68,710 | 85,012 |
| At cost | 11,137 | 10,207 | 13,832 |
| | 65,730 | 78,917 | 98,844 |
| Impairment | (183) | (403) | (317) |
| | 65,547 | 78,514 | 98,527 |

| | **2008** | **2009** | **2010** |
|---|---|---|---|
| | **Head** | **Head** | **Head** |
| *Physical quantity of current livestock:* | | | |
| Piglets and fattening | 519,178 | 632,890 | 760,155 |
| Broilers | 2,341,009 | 2,148,399 | 2,306,108 |
| Chicken breeders, layers and pullets | 3,378,210 | 3,712,937 | 4,347,846 |
| Hatching eggs (units) | 5,206,638 | 4,217,472 | 6,694,736 |
| | 11,445,035 | 10,711,698 | 14,108,845 |

Piglets and fattening, and pullets and broilers (after reaching harvestable weight) are measured at their fair values less estimated costs to sell. The fair values are determined based upon prevailing market-determined prices of livestock of similar age and weight, breed and genetic merit.

Chicken breeders and layers are measured at cost less accumulated amortisation and any impairment losses while pullets and broilers (before reaching their harvestable weight) and hatching eggs are measured at cost in the absence of (a) an available market determined prices or values; and (b) alternative estimates of fair values that are determined to be clearly reliable.

A reconciliation of changes in the carrying amount of current livestock is as follows:

| | **2008** | **2009** | **2010** |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| Carrying amount at 1 January | 50,417 | 65,730 | 78,917 |
| Increase due to purchases/raising | 196,952 | 203,673 | 244,990 |
| Unrealised gain arising from changes in fair value less estimated costs to sell, net *(note 8)* | 10,893 | 25,697 | 25,785 |
| Decrease due to: | | | |
| – amortisation | (5,542) | (8,187) | (7,661) |
| – sales | (172,341) | (194,046) | (227,967) |
| – culling *(note 8)* | (9,690) | (9,556) | (10,677) |
| Exchange realignment | (4,959) | (4,394) | (4,543) |
| Carrying amount at 31 December | 65,730 | 78,917 | 98,844 |

The movement in the provision for impairment of current livestock during the year are as follows:

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| At 1 January | 299 | 183 | 403 |
| Impairment losses recognised *(note 8)* | 140 | 286 | 204 |
| Amounts written off | (262) | (47) | (268) |
| Exchange realignment | 6 | (19) | (22) |
| At 31 December | 183 | 403 | 317 |

**19. INTANGIBLE ASSETS**

| | | Computer software | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | *US$'000* | *US$'000* | *US$'000* |
| At 1 January: | | | |
| Cost | 491 | 1,994 | 1,954 |
| Accumulated amortisation | – | (204) | (668) |
| Net carrying amount | 491 | 1,790 | 1,286 |
| At 1 January, net of accumulated depreciation: | 491 | 1,790 | 1,286 |
| Additions | 1,622 | 80 | 1,317 |
| Amortisation provided during the year | (215) | (490) | (536) |
| Exchange realignment | (108) | (94) | (80) |
| At 31 December | 1,790 | 1,286 | 1,987 |
| At 31 December: | | | |
| Cost | 1,994 | 1,954 | 3,147 |
| Accumulated amortisation | (204) | (668) | (1,160) |
| Net carrying amount | 1,790 | 1,286 | 1,987 |

**20. DEFERRED TAX**

Net deferred tax assets/(liabilities) recognised in the combined statements of financial position are as follows:

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| Deferred tax assets | 649 | – | – |
| Deferred tax liabilities | – | (1,431) | (2,159) |
| | 649 | (1,431) | (2,159) |

The components of deferred tax assets and liabilities and the movements during the Relevant Periods are as follows:

| | Notes | Fair value adjustments arising from livestock | Depreciation allowances in excess of related depreciation | Impairment and provision | Provision for severance allowance benefit | Losses available for offsetting future taxable profits | Net deferred tax assets/ (liabilities) |
|---|---|---|---|---|---|---|---|
| | | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| At 1 January 2008 | | (2,427) | – | 1,007 | 150 | 39 | (1,231) |
| Deferred tax credited/(charged) to profit or loss during the year | 13 | (905) | – | 2,657 | 42 | 81 | 1,875 |
| Exchange realignment | | 235 | – | (209) | (14) | (7) | 5 |
| At 31 December 2008 and 1 January 2009 | | (3,097) | – | 3,455 | 178 | 113 | 649 |
| Deferred tax credited/(charged) to profit or loss during the year | 13 | (2,320) | – | 196 | 50 | (28) | (2,102) |
| Exchange realignment | | 250 | – | (210) | (12) | (6) | 22 |
| At 31 December 2009 and 1 January 2010 | | (5,167) | – | 3,441 | 216 | 79 | (1,431) |
| Deferred tax credited/(charged) to profit or loss during the year | 13 | (1,084) | 128 | 104 | 10 | 26 | (816) |
| Exchange realignment | | 289 | (2) | (184) | (11) | (4) | 88 |
| At 31 December 2010 | | (5,962) | 126 | 3,361 | 215 | 101 | (2,159) |

There were no income tax consequences attaching to the payment of dividends by CPVL and MS to their shareholders.

**21. INVENTORIES**

**Group**

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Raw materials | 93,017 | 144,375 | 196,041 |
| Work in progress | 4,377 | 4,829 | 11,674 |
| Finished goods | 13,452 | 11,976 | 12,529 |
| Tools and supplies | 3,509 | 3,301 | 5,323 |
| | 114,355 | 164,481 | 225,567 |

## 22. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND DEPOSITS

The Modern State Group normally grants credit periods of up to 15 days for agro business and 120 days for aquaculture business. The Modern State Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Modern State Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable, other receivables and deposits are non-interest-bearing. An aged analysis of the Modern State Group's accounts receivable, based on the invoice date, as at the end of each of the Relevant Periods, is as follows:

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Less than 60 days | 21,428 | 16,291 | 25,800 |
| 61 to 180 days | 13,589 | 7,327 | 6,926 |
| 181 to 360 days | 2,314 | 2,467 | 2,695 |
| | 37,331 | 26,085 | 35,421 |
| Impairment | (2,314) | (2,467) | (2,695) |
| | 35,017 | 23,618 | 32,726 |
| Other receivables and deposits | 18,425 | 10,094 | 27,040 |
| | 53,442 | 33,712 | 59,766 |

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

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| At 1 January | 466 | 2,314 | 2,467 |
| Impairment losses recognised *(note 8)* | 2,434 | 1,210 | 950 |
| Amounts written off as uncollectible | (452) | (911) | (587) |
| Exchange realignment | (134) | (146) | (135) |
| At 31 December | 2,314 | 2,467 | 2,695 |

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable as at 31 December 2008, 2009 and 2010 of US$2,314,000, US$2,467,000 and US$2,695,000 with the same carrying amounts before provision. The individually impaired accounts receivable relate to customers that were in financial difficulties. The Modern State Group does not hold any collateral or other credit enhancements over these balances.

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

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Neither past due nor impaired | 11,547 | 6,183 | 10,443 |
| Less than 180 days past due | 19,402 | 14,252 | 15,600 |
| Over 180 days past due | 4,068 | 3,183 | 6,683 |
| | 35,017 | 23,618 | 32,726 |

Receivables that were neither past due nor impaired relate 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 Modern State Group. Based on past experience, the directors of Modern State 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 Modern State Group does not hold any collateral or other credit enhancements over these balances.

Included in the Modern State Group's accounts receivable as at 31 December 2008, 2009 and 2010 were aggregate amounts of US$1,758,000, nil and US$801,000, respectively, due from related companies of the Modern State Group arising from transactions carried out in the ordinary course of business of the Modern State Group. These balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the Modern State Group to its major customers.

Included in the Modern State Group's other receivables and deposits as at 31 December 2008, 2009 and 2010 were aggregate amounts of nil, US$1,265,000 and nil, respectively, due from a related company of the Modern State Group. The balances are unsecured, interest-free and have no fixed terms of repayment.

## 23. CASH AND CASH EQUIVALENTS

| | Group At 31 December | | | Company At 31 December | | |
|---|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Cash and bank balances | 8,305 | 9,584 | 14,887 | 6 | – | 3,689 |
| Time deposits | 3,987 | 32,763 | 734 | – | – | – |
| Cash and cash equivalents | 12,292 | 42,347 | 15,621 | 6 | – | 3,689 |

At the reporting date, the cash and bank balances and time deposits of the Modern State Group denominated in VND amounted to US$141,000, US$42,331,000 and US$11,708,000 at 31 December 2008, 2009 and 2010, respectively.

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 one year depending on the immediate cash requirements of the Modern State Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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

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

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Less than 90 days | 29,141 | 63,538 | 51,387 |
| 91 to 180 days | 1,697 | 521 | 649 |
| 181 to 360 days | 84 | 4 | 793 |
| Over 360 days | 48 | 7 | 17 |
| | 30,970 | 64,070 | 52,846 |
| Other payables and accrued expenses | 29,103 | 22,483 | 27,297 |
| | 60,073 | 86,553 | 80,143 |

Included in the Modern State Group's accounts payable as at 31 December 2008, 2009 and 2010 were aggregate amounts of US$9,000, US$553,000 and US$1,621,000, respectively, due to related companies of the Modern State Group arising from transactions carried out in the ordinary course of business of the Modern State Group. The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by its major suppliers.

Included in the Modern State Group's other payables and accrued expenses as at 31 December 2008, 2009 and 2010 were aggregate amounts of US$132,000, US$13,000 and US$44,000, respectively, due to related companies of the Modern State Group. The balances are unsecured, interest-free and have no fixed terms of repayment.

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | At 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | | 2009 | | | 2010 | | |
| **Modern State Group** | **Contractual interest rate** *(%)* | **Maturity** | *US$'000* | **Contractual interest rate** *(%)* | **Maturity** | *US$'000* | **Contractual interest rate** *(%)* | **Maturity** | *US$'000* |
| **Current** | | | | | | | | | |
| Bank borrowings – unsecured | Floating rate or cost of fund plus 1.15% to 3% or monthly LIBOR | 2009 | 147,596 | Floating rate or cost of fund plus 1.15% to 3% | 2010 | 170,650 | Floating rate or cost of fund plus 1.15% to 3% | 2011 | 288,187 |
| Other borrowings – unsecured | Monthly LIBOR | 2009 | 7,367 | 6.125% p.a. | 2010 | 7,617 | – | – | – |
| | | | 154,963 | | | 178,267 | | | 288,187 |
| **Non-current** | | | | | | | | | |
| Bank borrowings – unsecured | Floating rate or cost of fund plus 1.25% p.a. | 2011 | 15,127 | Floating rate or cost of fund plus 1.25% or 3% p.a. | 2014 | 17,247 | Cost of fund plus 1.25% or 3% p.a. | 2014 | 10,995 |
| | | | 170,090 | | | 195,514 | | | 299,182 |

| | At 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | | 2009 | | | 2010 | | |
| **Modern State** | **Contractual interest rate** *(%)* | **Maturity** | *US$'000* | **Contractual interest rate** *(%)* | **Maturity** | *US$'000* | **Contractual interest rate** *(%)* | **Maturity** | *US$'000* |
| **Current** | | | | | | | | | |
| Other borrowings – unsecured | Monthly LIBOR | 2009 | 7,367 | 6.125% p.a. | 2010 | 7,617 | – | – | – |

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 December | | |
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Analysed into: | | | | | | |
| Bank borrowings repayable: | | | | | | |
| Within one year | 147,596 | 170,650 | 288,187 | – | – | – |
| In the second year | 15,127 | 12,790 | – | – | – | – |
| In the third to fifth years, inclusive | – | 4,457 | 10,995 | – | – | – |
| | 162,723 | 187,897 | 299,182 | – | – | – |
| Other borrowings repayable: | | | | | | |
| Within one year | 7,367 | 7,617 | – | 7,367 | 7,167 | – |
| | 170,090 | 195,514 | 299,182 | 7,367 | 7,167 | – |

Except for the bank and other borrowings with aggregate carrying amounts of US$58,331,000, US$59,864,000 and US$96,009,000 as at 31 December 2008, 2009 and 2010, respectively, which are denominated in VND, all other bank and other borrowings are denominated in US$.

Included in the Modern State Group and Modern State's other borrowings as at 31 December 2008 and 2009 were unsecured loans of US$7,367,000 and US$7,617,000, respectively, granted by related companies of the Modern State Group.

Included in the Modern State Group's bank borrowings as at 31 December 2008, 2009 and 2010 were the unsecured loans with the aggregate amounts of US$2,808,000, US$8,995,000 and US$9,000,000, respectively, granted by a bank in Vietnam which is a related company of the Modern State Group, at a rate of cost of fund plus 3% per annum.

Interest on the Modern State Group's bank and other borrowings was payable at various rates as at 31 December 2008, 2009 and 2010, ranging from 2.46% to 21%, 4% to 12% and 3.15% to 13.5% per annum, respectively. The carrying amounts of bank and other borrowings approximate to their fair values.

## 26. SHARE CAPITAL

| | At 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | *US$'000* | *US$'000* | *US$'000* |
| Authorised: | | | |
| 100,000,000 (2009: 50,000 and 2008: 50,000) ordinary shares of US$1 each | 50 | 50 | 100,000 |
| Issued and fully paid: | | | |
| 6,179,000 (2009: 1 and 2008:1) ordinary shares of US$1 each | – | – | 6,179 |

Pursuant to an ordinary resolution passed on 11 October 2010, the authorised share capital of Modern State was increased from US$50,000 to US$100,000,000 by the creation of 99,950,000 additional new shares of par value US$1 each, ranking pari passu in all respects with the existing shares of Modern State. On 22 November 2010, 6,178,999 ordinary shares were allotted and issued at par value for cash to provide the additional working capital.

Subsequent to the end of the reporting periods on 14 February 2011, the authorised share capital of Modern State was increased from US$100,000,000 to US$120,000,000 by the creation of 20,000,000 additional new shares of par value US$1 each, ranking pari passu in all respects with the existing shares of Modern State. In February and March 2011, Modern State allotted and issued a total of 100,805,000 ordinary shares at par value for cash of US$100,805,000 which, together with the cash at bank of approximately US$3,677,000, was used to acquire a 62.70% equity interest in CPVL on 25 March 2011.

**27. RESERVES**

**(a) Modern State Group**

(i) The movements in the Modern State Group's reserves for the Relevant Periods are presented in the combined statements of changes in equity in Section I.

(ii) The Modern State Group's other capital reserve included the following:

- arising from the adoption of merger method of accounting as explained in note 2.3 of section II; and

- the transfer of retained profits of US$26,992,000 arising from the distribution of stock dividend by CPVL in 2010.

**(b) Modern State**

| | **Share capital** | **Retained profits/ (accumulated losses)** | **Total** |
|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* |
| At 1 January 2008 | – | (18) | (18) |
| Loss for the year and total comprehensive loss for the year | – | (212) | (212) |
| At 31 December 2008 and 1 January 2009 | – | (230) | (230) |
| Loss for the year and total comprehensive loss for the year | – | (139) | (139) |
| At 31 December 2009 and 1 January 2010 | – | (369) | (369) |
| Profit for the year and total comprehensive profit for the year | – | 5,241 | 5,241 |
| Issue of shares *(note 26)* | 6,179 | – | 6,179 |
| At 31 December 2010 | 6,179 | 4,872 | 11,051 |

## 28. COMMITMENTS

The Modern State Group had the following capital commitments as at 31 December 2008, 2009 and 2010:

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Contracted, but not provided for: | | | |
| Contracts in respect of premises | 7,896 | 1,734 | 6,266 |

Modern State did not have any significant capital commitments as at 31 December 2008, 2009 and 2010, respectively.

## 29. OPERATING LEASE ARRANGEMENTS

The Modern State Group leases land and office premises under operating lease arrangements. The minimum lease commitments as at 31 December 2008, 2009 and 2010 under the operating lease agreements is as follows:

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Within one year | 1,180 | 1,399 | 6,545 |
| In the second to fifth years, inclusive | 4,096 | 2,324 | 20,664 |
| After five years | 19,583 | 14,300 | 40,940 |
| | 24,859 | 18,023 | 68,149 |

## 30. CONTINGENT LIABILITIES

At 31 December 2008, 2009 and 2010, the Modern State Group and Modern State had no significant contingent liabilities.

**31. RELATED PARTY DISCLOSURES**

(a) In addition to the transactions and balances detailed elsewhere in this Combined Financial Information, the Modern State Group entered into the following material transactions with related parties during the Relevant Periods:

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2008** | **2009** | **2010** |
| | *Notes* | *US$'000* | *US$'000* | *US$'000* |
| Technical service fee paid to the ultimate holding company | (i) | 24,585 | 25,522 | 30,878 |
| Sales of goods to related companies | (ii) | 2,892 | 2,846 | 2,078 |
| Purchases of goods from related companies | (iii) | 8,559 | 3,147 | 10,727 |
| Purchases of computer software from and service fee paid to related companies | (iv) | 1,597 | 197 | 919 |
| Purchases of property, plant and equipment from a related company | (iv) | 5,275 | 758 | 3,726 |
| Loan interest paid to related companies | (v) | 594 | 460 | 794 |

*Notes:*

(i) The technical service fee was determined based on 3% of total sales by CPVL.

(ii) The sales of goods were made by reference to prices and conditions offered to the major customers of the Modern State Group.

(iii) The purchases of raw materials were made by reference to prices and conditions offered by the major suppliers of the Modern State Group.

(iv) The purchases prices of property, plant and equipment and computer software and related service fee were determined by negotiation between the relevant parties.

(v) The loan interest were charged based on rates mutually agreed between the relevant parties.

(b) Details of the outstanding balances with related parties are included in notes 22, 24 and 25 of the Combined Financial Information.

(c) Compensation of key management personnel of the Modern State Group:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Short term employee benefits | 445 | 1,495 | 2,166 |

**32. FINANCIAL INSTRUMENTS CATEGORY**

The financial assets of the Modern State Group and Modern State as at 31 December 2008, 2009 and 2010 comprised accounts receivable, other receivables and deposits; while their financial liabilities comprised accounts payable, other payables and accrued expenses, and interest-bearing bank and other borrowings.

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Modern State Group's financial instruments are interest rate risk, credit risk, fair value risk, foreign currency risk and liquidity risk. The Modern State Group does not hold or issue derivative financial instruments for trading purposes.

### (a) Interest rate risk

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

The Modern State Group manages its interest rate risk by closely monitoring on relevant market situations including domestic and international money market and economic situations, in order to contemplate and adapt its leverage level as well as financing strategies to the prevailing situation.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Modern State Group's profit before tax and the Modern State Group's equity.

| | **Increase/ (decrease) in basis points in interest rate** | **Increase/ (decrease) in profit before tax** | **Increase/ (decrease) in equity** |
|---|---|---|---|
| | | *US$'000* | *US$'000* |
| *Year ended 31 December 2008* | | | |
| United States dollar | 500 | (3,119) | (3,119) |
| United States dollar | (500) | 3,119 | 3,119 |
| Vietnamese Dong | 500 | (3,868) | (3,868) |
| Vietnamese Dong | (500) | 3,868 | 3,868 |
| *Year ended 31 December 2009* | | | |
| United States dollar | 500 | (6,196) | (6,196) |
| United States dollar | (500) | 6,196 | 6,196 |
| Vietnamese Dong | 500 | (2,955) | (2,955) |
| Vietnamese Dong | (500) | 2,955 | 2,955 |
| *Year ended 31 December 2010* | | | |
| United States dollar | 500 | (8,481) | (8,481) |
| United States dollar | (500) | 8,481 | 8,481 |
| Vietnamese Dong | 500 | (3,897) | (3,897) |
| Vietnamese Dong | (500) | 3,897 | 3,897 |

**(b) Concentrations of credit risk**

The Modern State Group places its cash deposits with well known banks and financial institutions in Vietnam. This cash management policy limits the Modern State Group's exposure to concentrations of credit risk.

A significant portion of the Modern State Group's sales are to customers in the agricultural industry and, as such, the Modern State 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 Modern State Group's large customer base. The Modern State Group performs credit evaluations of its customers' financial conditions and shipments to major customers are generally covered by letters of credit or other forms of credit insurance. 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.

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

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

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

Accounts receivable, which generally have terms of 0 to 15 days terms for agro business and terms of 60 to 120 days terms for aquaculture business, 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 account payables and other payables which are normally settled on 60 days terms, are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Modern State Group.

*(ii) Amounts due from and to related companies*

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

*(iii) Interest-bearing bank and other borrowings*

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

**(d) Foreign currency risk**

The Modern State Group's businesses are principally operated in Vietnam and transactions are substantially conducted in VND.

The following table demonstrates the sensitivity to a reasonably possible change in US$ exchange rate, with all other variables held constant, of the Modern State Group's profit before tax and equity.

| | **Increase/ (decrease) in VND rate** | **Increase/ (decrease) in profit before tax** | **Increase/ (decrease) in equity** |
|---|---|---|---|
| | *%* | *US$'000* | *US$'000* |
| *2008* | | | |
| If US$ weakens against VND | 6 | 6,067 | 5,768 |
| If US$ strengthens against VND | (6) | (6,067) | (5,768) |
| *2009* | | | |
| If US$ weakens against VND | 6 | 7,281 | 7,074 |
| If US$ strengthens against VND | (6) | (7,281) | (7,074) |
| *2010* | | | |
| If US$ weakens against VND | 6 | 11,409 | 11,226 |
| If US$ strengthens against VND | (6) | (11,409) | (11,226) |

**(e) Liquidity risk**

The Modern State Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations.

The Modern State Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The maturity profile of the Modern State Group's financial liabilities as at the reporting date, based on the contractual undiscounted payments, was as follows:

**31 December 2008**

| | **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 | 18,970 | 12,000 | – | – | 30,970 |
| Other payables and accrued expenses | 29,103 | – | – | – | 29,103 |
| Interest-bearing bank and other borrowings | – | 986 | 160,161 | 25,648 | 186,795 |
| | 48,073 | 12,986 | 160,161 | 25,648 | 246,868 |

**31 December 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 | 53,518 | 10,552 | – | – | 64,070 |
| Other payables and accrued expenses | 22,483 | – | – | – | 22,483 |
| Interest-bearing bank and other borrowings | – | 5,879 | 176,079 | 20,110 | 202,068 |
| | 76,001 | 16,431 | 176,079 | 20,110 | 288,621 |

**31 December 2010**

| | 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 | 43,846 | 9,000 | – | – | 52,846 |
| Other payables and accrued expenses | 27,297 | – | – | – | 27,297 |
| Interest-bearing bank and other borrowings | – | 3,526 | 293,344 | 16,103 | 312,973 |
| | 71,143 | 12,526 | 293,344 | 16,103 | 393,116 |

**(f) Capital management**

The primary objective of the Modern State Group's capital management is to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Modern State 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 Modern State Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Modern State 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 Relevant Periods.

The Modern State Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The Modern State Group's policy is to maintain the gearing ratio at reasonable levels. Net debt includes accounts payable, other payables and accrued expenses, and interest-bearing bank and other borrowings, less cash and cash equivalents. Capital represents the equity attributable to equity holders of Modern State. The gearing ratios as at the end of each of the Relevant Periods were as follows:

| | At 31 December | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | *US$'000* | *US$'000* | *US$'000* |
| Accounts payable, other payables and accrued expenses | 60,073 | 86,553 | 80,143 |
| Interest-bearing bank and other borrowings | 170,090 | 195,514 | 299,182 |
| Less: Cash and cash equivalents | (12,292) | (42,347) | (15,621) |
| Net debt | 217,871 | 239,720 | 363,704 |
| Capital | 114,715 | 140,590 | 138,135 |
| Capital and net debt | 332,586 | 380,310 | 501,839 |
| Gearing ratio | 66% | 63% | 72% |

## 34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Modern State Group in respect of any period subsequent to 31 December 2010.

Yours faithfully,
**Ernst & Young**
*Certified Public Accountants*
Hong Kong

## I. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma financial information of C.P. POKPHAND CO. LTD. (the "Company") and its subsidiaries (collectively the "Group") assuming that the proposed acquisition ("Proposed Acquisition") of the entire equity interest in Modern State Investments Limited ("Modern State", together with its subsidiary, referred to as the "Modern State Group") by the Company pursuant to a sale and purchase agreement (the "Sale and Purchase Agreement") dated 30 May 2011 made between the Company and CPG Overseas Company Limited had been completed on 31 December 2010. The unaudited pro forma financial information was prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2010 included in the published annual report of the Group for the year then ended and the Combined Financial Information of the Modern State Group as set out in the accountants report in Appendix II to this Circular, after giving effect to the pro forma adjustments as described in the accompanying notes.

The unaudited pro forma financial information of the Group including the Modern State Group (hereinafter referred to as the "Enlarged Group") is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information does not purport to describe the financial information of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on 31 December 2010. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position.

**Unaudited Pro Forma Combined Statement of Assets and Liabilities of the Enlarged Group as at 31 December 2010**

| | The Group | The Modern State Group | Pro Forma adjustment | Pro Forma Combined: The Enlarged Group |
|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| | *(Note 1)* | *(Note 2)* | *(Notes 3, 4 and 5)* | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 265,095 | 157,305 | | 422,400 |
| Investment properties | 7,895 | – | | 7,895 |
| Land lease prepayments | 18,899 | 5,040 | | 23,939 |
| Non-current livestock | – | 29,195 | | 29,195 |
| Intangible assets | – | 1,987 | | 1,987 |
| Investments in jointly-controlled entities | 109,280 | – | | 109,280 |
| Investment in an associate | 37,094 | – | | 37,094 |
| Long term deposits | – | 42 | | 42 |
| Due from related companies | 139,372 | – | | 139,372 |
| Deferred tax assets | 929 | – | | 929 |
| Available-for sale investments | 964 | – | | 964 |
| Total non-current assets | 579,528 | 193,569 | | 773,097 |
| CURRENT ASSETS | | | | |
| Land lease prepayments | – | 1,605 | | 1,605 |
| Inventories | 238,594 | 225,567 | | 464,161 |
| Current livestock | – | 98,527 | | 98,527 |
| Accounts receivable, other receivables and deposits | 98,280 | 59,766 | | 158,046 |
| Bills receivable | 3,307 | – | | 3,307 |
| Due from non-controlling shareholders | 885 | – | | 885 |
| Due from related companies | 1,951 | – | | 1,951 |
| Pledged deposits | 25,921 | – | | 25,921 |
| Cash and cash equivalents | 138,068 | 15,621 | | 153,689 |
| Total current assets | 507,006 | 401,086 | | 908,092 |

| | The Group US$'000 (Note 1) | The Modern State Group US$'000 (Note 2) | Pro Forma adjustment US$'000 (Notes 3, 4 and 5) | Pro Forma Combined: The Enlarged Group US$'000 |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Accounts payable, other payables and accrued expenses | 239,817 | 80,143 | 2,400 | 322,360 |
| Income tax payable | 13,925 | 5,005 | | 18,930 |
| Provision for staff bonus and welfare benefits | 6,365 | – | | 6,365 |
| Due to non-controlling shareholders | 4,531 | – | | 4,531 |
| Due to related companies | 5,370 | – | | 5,370 |
| Interest-bearing bank and other borrowings | 227,573 | 288,187 | | 515,760 |
| Total current liabilities | 497,581 | 373,335 | 2,400 | 873,316 |
| NET CURRENT ASSETS | 9,425 | 27,751 | (2,400) | 34,776 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 588,953 | 221,320 | (2,400) | 807,873 |
| NON-CURRENT LIABILITIES | | | | |
| Interest-bearing bank and other borrowings | 12,375 | 10,995 | | 23,370 |
| Provision for severance allowance | – | 2,226 | | 2,226 |
| Deferred tax liabilities | 3,550 | 2,159 | | 5,709 |
| Other non-current liabilities | 14,869 | – | | 14,869 |
| Total non-current liabilities | 30,794 | 15,380 | | 46,174 |
| Net assets | 558,159 | 205,940 | (2,400) | 761,699 |

*Notes:*

1. The balances are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2010 included in the published annual report of the Group for the year ended 31 December 2010.

2. The balances are extracted from the audited combined statement of financial position of the Modern State Group as at 31 December 2010 included in the Accountants' Report of the Modern State Group, which is set out in Appendix II to the Circular.

3. As the Company's controlling shareholders controlled the Modern State Group immediately before the Proposed Acquisition and continues to control the Modern State Group after the Proposed Acquisition through the Company, the pro forma financial information of the Enlarged Group has been prepared on the basis of business combination of entities under common control using the pooling-of-interest method. Accordingly, the assets and liabilities of the Modern State Group are reflected at their carrying values as at the date of acquisition. There is no goodwill or excess over the costs of combination as a result of the combination.

4. Pursuant to the Sale and Purchase Agreement, the consideration of the Proposed Acquisition shall be satisfied by the issue of the Company's ordinary shares and convertible preference shares and no cash consideration would be required. Accordingly, no pro forma adjustment has been made on accrual for cash consideration in the pro forma financial information.

5. The adjustment represents the accrual for estimated legal and professional costs directly attributable to the Proposed Acquisition, which amounts to approximately US$2,400,000. The pro forma adjustment is not expected to have continuing effect on the Enlarged Group.

## II. LETTER FROM THE REPORTING ACCOUNTANTS

*The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Section I of Appendix III to this Circular.*

ERNST & YOUNG
安 永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環金融街8號
國際金融中心2期18樓
電話: +852 2846 9888
傳真: +852 2868 4432

21 June 2011

The Board of Directors
C.P. POKPHAND CO. LTD.

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Statement of Assets and Liabilities") set out in Section I of Appendix III to the shareholders' circular (the "Circular") of C.P. POKPHAND CO. LTD. (the "Company", together with its subsidiaries, referred to as the "Group") dated 21 June 2011, which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Modern State Investments Limited (the "Target Co", together with its subsidiary, referred to as the "Target Group") might have affected the historical financial information presented therein. The basis of preparation of the Unaudited Pro Forma Statement of Assets and Liabilities is set out in the Section I of Appendix III to the Circular.

**Respective responsibilities of the directors of the Company**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Statement of Assets and Liabilities in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Respective responsibilities of the reporting accountants**

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Statement of Assets and Liabilities and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Statement of Assets and Liabilities beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 *Accountants' Reports on Pro Forma Financial Information in Investment Circulars* issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the unaudited evidence supporting the adjustments and discussing the Unaudited Pro Forma Statement of Assets and Liabilities with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Statement of Assets and Liabilities.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Statement of Assets and Liabilities has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Statement of Assets and Liabilities as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Statement of Assets and Liabilities is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2010 had the acquisition of the Target Group actually been completed on that date or any future dates.

**Opinion**

In our opinion:

(a) the Unaudited Pro Forma Statement of Assets and Liabilities has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Statement of Assets and Liabilities as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
**Ernst & Young**
*Certified Public Accountants*
Hong Kong

## THE TARGET GROUP

The following is the management discussion and analysis of the combined financial conditions and results of operations of the Target Group prepared under IFRS for the three years ended 31 December 2010. In 2009, CPVL entered into a merger agreement with Charoen Pokphand Vietnam Corporation ("CPVN"), a company incorporated in Vietnam, which previously covered similar businesses in the Northern region of Vietnam. Under the aforementioned merger agreement, CPVL issued common shares to the existing shareholders of CPVN in exchange for the net assets of CPVN. The merger became effective on 31 August 2009 when CPVN ceased its operations as a company and transferred all of its assets and liabilities to CPVL.

The consolidated accounts presented herewith for analysis purpose are prepared as if CPVL and CPVN have been merged and operated under Modern State Investments Limited ("MS") since 1 January 2008. The analysis performed in the section are based on CPVL's audited financial statements as audited by Ernst & Young which are prepared in accordance with IFRS and presented in local currency (VND). Key financial figures presented therein are translated into USD by using an exchange rate of 19,500.

### Review for the year ended 31 December 2008

The revenues of CPVL for the year ended 31 December 2008 amounted to VND 13,804 billion (US$ 708 million). Gross profit amounted to approximately VND 1,785 billion (US$ 92 million) and net profit amounted to approximately VND 449 billion (US$ 23 million).

As at 31 December 2008, CPVL had current assets and current liabilities of approximately VND 4,294 billion (US$ 220 million) and VND 3,647 (US$ 187 million), respectively.

As at 31 December 2008, CPVL had total assets of approximately VND 6,809 billion (US$ 349 million) and total liabilities of approximately VND 3,942 billion (US$ 202 million). As at 31 December 2008, the gearing ratio (Net debt/total equity) of CPVL was approximately 0.91.

As at 31 December 2008, property, plant and equipment of CPVL amounted to net book value of approximately VND 2,153 billion (US$ 110 million).

There was no significant investment, material acquisition or disposal of subsidiaries and associated companies for CPVL during the year ended 31 December 2008.

**Review for the year ended 31 December 2009**

The revenues of CPVL for the year ended 31 December 2009 amounted to approximately VND 15,606 billion (US$ 800 million), representing an increase of approximately 13% as compared to that of year 2008. Gross profit amounted to approximately VND 2,273 billion (US$117 million), representing an increase of approximately 27% as compared to that of year 2008 and net profit amounted to approximately VND 1,074 billion (US$ 55 million) representing an increase of approximately 139% as compared to that of year 2008.

As at 31 December 2009, CPVL had current assets and current liabilities of VND 5,918 billion (US$ 303 million) and VND 4,819 billion (US$247 million), respectively.

As at 31 December 2009, CPVL had total assets of approximately VND 9,142 billion (US$ 469 million), representing an increase of approximately 34% as compared to the amount of total asset as at 31 December 2008. As at 31 December 2009, CPVL had total liabilities of approximately VND 5,201 billion (US$ 267 million), representing an increase of approximately 31% as compared to the amount of total liabilities as at 31 December 2008. As at 31 December 2009, the gearing ratio (Net debt/total equity) of CPVL was approximately 0.68.

As at 31 December 2009, property, plant and equipment of CPVL amounted to net carrying value of approximately VND 2,762 billion (US$ 142 million).

As aforementioned, during 2009, CPVL entered into a merger agreement with Charoen Pokphand Vietnam Corporation ("CPVN"), a company incorporated in Vietnam, which previously covered similar business in the Northern region Vietnam. Under the aforementioned merger agreement, CPVL issued common shares to the existing shareholders of CPVN in exchange for the new asset of CPVN. The merger became effective on 31 August 2009 when CPVN ceased operations as a company and transferred all its assets and liabilities to CPVL.

**Review for the year ended 31 December 2010**

The revenues of CPVL for the year ended 31 December 2010 amounted to approximately VND 20,078 billion (US$ 1,030 million), representing an increase of approximately 29% as compared to that of year 2009. Gross profit amounted to approximately VND 2,539 billion (US$ 130 million), representing an increase of approximately 12% as compared to that of year 2009 and net profit amounted to approximately VND 964 billion (US$ 49 million)), representing a decrease of approximately 10% as compared to that of year 2009. Net profit margin decreased from 6.9% in 2009 to 4.8% in 2010 primarily resulting from raw materials cost increase as well as the impact of swine disease during the second to the third quarter of 2010 and an increase in financial costs.

As at 31 December 2010, CPVL had current assets and current liabilities of approximately VND 7,749 billion (US$ 397 million) and VND 7,280 billion (US$ 373 million), respectively.

As at 31 December 2010, CPVL had total assets of approximately VND 11,524 billion (US$ 591 million), representing an increase of approximately 26% as compared to the amount of total assets as at 31 December 2009. As at 31 December 2010, CPVL had total liabilities of approximately VND 7,579 billion (US$389 million), representing an increase of approximately 46% as compared to the amount of total liabilities as at 31 December 2009. The increase in total liabilities and debt was primarily attributable to the increased borrowing for capital expenditure and working capital. As at 31 December 2010, the gearing ratio (Net debt/total equity) of CPVL was approximately 1.42.

As at 31 December 2010, property, plant and equipment of CPVL amounted to net carrying value of approximately VND 3,067 billion (US$ 157 million).

There was no significant investment, material acquisition or disposal of subsidiaries or associated companies for CPVL during the year ended 31 December 2010.

**Revenue, sales volume and pricing of CPVL's products**

| | **2008** | **%** | **2009** | **%** | **2010** | **%** |
|---|---|---|---|---|---|---|
| | | | Unit: VND billion unless otherwise stated | | | |
| **Livestock:** | | | | | | |
| Livestock feed sales | 5,626 | 41% | 6,355 | 41% | 8,085 | 40% |
| *Livestock Feed sales volume (Tons)* | 766,355 | | 891,584 | | 1,022,467 | |
| Livestock farm sales | 4,213 | 30% | 5,507 | 35% | 7,163 | 36% |
| Swine | 2,114 | 15% | 2,775 | 18% | 3,392 | 17% |
| Poultry | 2,099 | 15% | 2,732 | 17% | 3,771 | 19% |
| Livestock food sales | 795 | 6% | 782 | 5% | 899 | 4% |
| **Total livestock sales** | 10,634 | 77% | 12,644 | 81% | 16,147 | 80% |
| **Aqua:** | | | | | | |
| Aqua feed sales | 2,602 | 19% | 2,513 | 16% | 3,170 | 16% |
| *Aqua Feed sales volume (Tons)* | 273,517 | | 271,324 | | 237,122 | |
| Aqua farm sales | 180 | 1% | 234 | 2% | 496 | 3% |
| Aqua food sales | 388 | 3% | 215 | 1% | 265 | 1% |
| **Total aqua sales** | 3,170 | 23% | 2,962 | 19% | 3,931 | 20% |
| **Total revenue** | 13,804 | 100% | 15,606 | 100% | 20,078 | 100% |

| | 2008 | % | 2009 | % | 2010 | % |
|---|---|---|---|---|---|---|
| | | | Unit: US$million unless otherwise | | | |
| **Livestock:** | | | | | | |
| Livestock feed sales | 289 | 41% | 326 | 41% | 415 | 40% |
| *Livestock feed sales volume (Tons)* | 766,355 | | 891,584 | | 1,022,467 | |
| Livestock farm sales | 216 | 30% | 282 | 35% | 367 | 36% |
| Swine | 108 | 15% | 142 | 18% | 174 | 17% |
| Poultry | 108 | 15% | 140 | 17% | 193 | 19% |
| Livestock food sales | 40 | 6% | 40 | 5% | 46 | 4% |
| **Total livestock sales** | 545 | 77% | 648 | 81% | 828 | 80% |
| **Aqua:** | | | | | | |
| Aqua feed sales | 133 | 19% | 129 | 16% | 163 | 16% |
| *Aqua feed sales volume (Tons)* | 273,517 | | 271,324 | | 237,122 | |
| Aqua farm sales | 9 | 1% | 12 | 2% | 25 | 3% |
| Aqua food sales | 21 | 3% | 11 | 1% | 14 | 1% |
| **Total aqua sales** | 163 | 23% | 152 | 19% | 202 | 20% |
| **Total revenue** | 708 | 100% | 800 | 100% | 1,030 | 100% |

Total revenue consists of revenue from sales of livestock products and aquatic products. Both business lines typically comprise of feed products, farm products and food products. During 2008-2010, livestock sales accounted for 77-81% of total revenue and aqua sales accounted for 19-23% of total revenue. By type of product, feed sales accounted for 56-60% of total revenue, farm sales accounted for 31-39% of total revenue and food sales accounted for 5-9% of total revenue. Throughout 2008-2010, export sales accounted for approximately 1-2% of total revenue.

2009 vs 2008:

Total revenue from sales increased from VND 13,804 billion (US$708 million) in 2008 to VND15,606 billion (US$800 million) in 2009 or increased by 13%. The increase was primarily attributable to the increase of livestock sales, which increased by VND2,010 billion (US$103 million) or 19%, and partially offset by the decrease of aqua sales.

*Livestock sales*

Total livestock sales increased from VND10,634 billion (US$545 million) in 2008 to VND12,644 billion (US$648 million) in 2009 or increased by 19%. The increase was primarily attributable to the increase in livestock farm and feed sales, which increased by VND1,294 billion (US$66 million) or 31% and VND729 billion (US$37 million) or 13%, respectively. Livestock farm sales increased as a result of raising sales volume of both swine and poultry businesses, swine sales volume increased significantly as a result of demand expansion after recovery from swine disease. Livestock feed sales increased in line with capacity expansion in addition to recovery of local market demand post swine disease.

*Aqua sales*

Total aqua sales decreased from VND3,170 billion (US$163 million) in 2008 to VND2,962 billion (US$152 million) in 2009 or decreased by 7%. The decrease mainly resulted from shrinking of food sales and feed sales, which primarily resulted from the global economic slowdown which affected shrimp export demand. Feed consumption was consequently reduced driven by reduction of local aqua farming activities.

2010 vs 2009:

Total revenue from sales increased from VND15,606 billion (US$800 million) in 2009 to VND20,078 billion (US$1,030 million) in 2010 or increased by 29%. The increase was primarily attributable to the increase of both livestock sales and aqua sales, livestock sales increased by VND3,503 billion (US$180 million) or 28%, and aqua sales increased by VND969 billion (US$50 million) or 33%.

*Livestock sales*

Total livestock sales increased from VND12,644 billion (US$648 million) in 2009 to VND 16,147 billion (US$828 million) in 2010 or increased by 28%. The increase was primarily attributable to the increase in livestock farm and feed sales, which increased by VND 1,656 billion (US$85 million) or 30% and VND 1,730 billion (US$89 million) or 27%, respectively. Livestock farm sales increased as a result of raising sales volume of both swine and poultry businesses, which were mainly driven by the expansion of domestic demand and demand recovery since the outbreak of swine flu disease. Although the swine disease was only a short-term event that occurred during the second to third quarter of 2010, it affected swine selling prices and overall domestic husbandry prices. CPVL, with its disease-control system, was not affected by swine flu disease. Sales volume of both swine and poultry continued to increase after the outbreak which then offset the impact. The expansion of farm business normally drove internal feed consumption. The situation of swine disease during 2010 lasted for a month which was under control and relieved in the fourth quarter of 2010.

*Aqua sales*

Total aqua sales increased from VND 2,962 billion (US$152 million) in 2009 to VND3,931 billion (US$202 million) in 2010 or increased by 33%. The increase mainly resulted from increase in aqua feed and farm sales, which primarily resulted from expansion of export market as a result of global economic recovery and the opening of several new markets. In addition, in order to support the growing export market, CPVL plans to expand its own cold storage facilities in Vietnam to strategically support nearby aquatic farms for further processing.

**Cost of sales**

Cost of sales primarily consists of raw materials costs, which account for approximately 80-85% of total cost of sales, while other costs include labour costs and general overhead. Raw materials mainly consist of agricultural products used for feed production, such as corn, soybean meal, etc., which account for approximately 85-90% of raw material costs. The rest of raw materials also include breed costs and animal medicines. Raw materials are both locally procured and imported from reliable sources, based on quality, cost advantage and sufficiency of domestic supplies.

In accordance with IFRS, cost of sales also include realized gain on fair value changes of biological assets. Biological asset shall be measured at its fair value less estimated costs to sell, except where the fair value cannot be measured reliably, in which case, they are stated at cost. Below schedule shows breakdown of cost of sales;

| | **2008** | **2009** | **2010** |
|---|---|---|---|
| | | | *VND billion* |
| Costs | 11,785 | 13,097 | 17,138 |
| Realized fair value changes | 235 | 236 | 401 |
| **Total cost of sales** | 12,020 | 13,333 | 17,539 |

2009 vs 2008

Total costs of sales increased from VND12,020 billion (US$616 million) in 2008 to VND13,333 billion (US$684 million) in 2009 or increased by 11% which resulted from an increase in raw materials costs.

2010 vs 2009

Total costs of sales increased from VND13,333 billion (US$684 million) in 2009 to VND17,539 billion (US$899 million) in 2010 or increased by 32%. The increase was primarily attributable to the increase in livestock sales, which resulted in an increase in relevant raw material costs.

| Gross profit margin | 2008 | 2009 | 2010 |
|---|---|---|---|
| **Livestock** | 16.1% | 17.1% | 13.4% |
| **Aqua** | 2.4% | 3.8% | 9.6% |
| **Overall gross profit margin** | 12.9% | 14.6% | 12.6% |

As aforementioned in the cost of sales section, realized gain on fair value of biological assets is included in the calculation of gross profit margin.

2009 vs 2008

Overall gross profit margin increased from 12.9% in 2008 to 14.6% in 2009. The increase in gross profit margin was driven by both livestock and aqua performance for the year. Livestock gross profit margin increased from 16.1% in 2008 to 17.1% in 2009, while aqua gross profit margin increased from 2.4% in 2008 to 3.8% in 2009 due to higher market prices.

*Livestock gross profit margin*

Livestock gross profit margin increased from 16.1% in 2008 to 17.1% in 2009, mainly due to declining raw materials costs, which were at significant highs in 2008, driven by the then increasing in global oil prices.

*Aqua gross profit margin*

Aqua gross profit margin widened from 2.4% in 2008 to 3.8% in 2009, this is primarily attributable to the global economic rebound, which resulted in the expansion of export market demand which had significantly dropped in the prior year. In addition, the improvement of aqua gross profit margin was also driven by declining raw material costs as aforementioned, and the business platform change from demonstration farm to commercial farm. Prior to 2009, CPVL ran demonstration aqua farms to train and encourage local farmers to raise certain fish/shrimp breeds under proper farming environment and support CPVL's aqua food business; however, demonstration farms are less profitable compared to normal commercial farm.

2010 vs 2009

Overall gross profit margin decreased from 14.6% in 2009 to 12.6% in 2010. The decrease of gross profit margin primarily resulted from the decrease of livestock performance, with its gross profit margin decreased from 17.1% in 2009 to 13.4% in 2010, and partially offset by the increase in aqua gross profit margin from 3.8% in 2009 to 9.6% in 2010.

*Livestock gross profit margin*

Livestock gross profit margin decreased from 17.1% in 2009 to 13.4% in 2010, mainly as a result of raw materials cost increase as well as the impact of swine disease during the second to the third quarter of 2010. Market price of swine dropped approximately 15% during the period.

*Aqua gross profit margin*

Aqua gross profit margin widened from 3.8% in 2009 to 9.6% in 2010 was primarily attributable to the global economic downturn that has been picking up, and resulted in the expansion of export market demand. As aforementioned, the change of business platform from demonstration farm to commercial farm was another factor that attributed to the better aqua performance. CPVL plans to develop its own aqua farms and cold storages in order to support future growth of export market.

**Gain on unrealised fair value changes of biological assets**

Gain on unrealized fair value changes of biological assets represents gain from the change of fair value of biological assets as a reflection of accounting method complied as aforementioned in the cost of sales section.

**Selling and distribution costs**

Selling and distribution costs mainly consist of transportation and fuel, salaries and wages, and marketing and business development expenses.

2009 vs 2008

Selling and distribution costs increased by 7.4% from VND 248 billion (US$13 million) in 2008 to VND 266 billion (US$14 million) in 2009. The increase was primarily attributable to 32.0% increase in transportation and fuel cost and 16.2% increase in rental and depreciation. These increases are partially offset by the decrease in salaries and wages.

2010 vs 2009

Selling and distribution costs decreased by 3.7% from VND 266 billion (US$14 million) in 2009 to VND 256 billion (US$13 million) in 2010. The decrease was primarily attributable to 25.0% decrease in transportation and fuel and 4.4% decrease in marketing and business development expenses as a result of the newly implemented cost control initiatives. These decreases are partially offset by increase in employee expenses which were increased in line with the business expansion.

**Administrative expenses**

Administrative expenses mainly consist of technical assistance services fee paid to CPG, salary and wages, rental and depreciation and tools supplies and business development expenses.

The aforementioned technical services assistance fee is a service fee that CPVL previously paid to CPG under the technical service agreement, at a rate of 3% of net sales, which accounted for 61%, 57% and 61% of total administrative expenses for the year 2008, 2009 and 2010, respectively.

2009 vs 2008

Administrative expenses increased by 20.3% from VND 664 billion (US$34 million) in 2008 to VND 799 billion (US$41 million) in 2009. The increase was primarily attributable to 12.8% increase in technical services assistance fee, 82.3% increase in employee expenses (i.e. salary, bonus, overtime, incentives, insurance, etc.), 54.9% increase in depreciation/amortization and rental and 21.6% increase in tools supplies and business development expenses. These increases resulted from increased business activity and revenue in 2009 as compared to 2008.

2010 vs 2009

Administrative expenses increased by 22.3% from VND 799 billion (US$41 million) in 2009 to VND 977 billion (US$50 million) in 2010. The increase was primarily attributable to 29.3% increase in technical services assistance fee, 22.0% increase in employee expenses, 3.3% increase in depreciation/amortization and rental. These increase are partially offset by 13.7% decrease in tools supplies and business development expenses.

**Liquidity, financial resources and capital structure**

| | As at 31 December | | |
|---|---|---|---|
| *(US$ million)* | **2008** | **2009** | **2010** |
| Total liabilities | 202 | 267 | 389 |
| Including total borrowings | 145 | 178 | 299 |
| Average interest rates per annum | 12%-15% | 6%-8% | 9%-11% |
| Total equity | 147 | 202 | 202 |
| Total borrowings to equity ratio | 98.6% | 88.1% | 148.0% |
| Cash and cash equivalents | 11 | 40 | 12 |

Bank loans are mainly denominated in VND and partially denominated in US Dollar and CPVL had not engaged in any derivative for hedging against interest or exchange rates. Most of the outstanding borrowings are short-term loans, with maturity of less than or equal to one year, utilised for supporting continuous business expansion, which required larger working capital.

In 2008 to 2010, the total liabilities increased due to an increase in total borrowings, which was primarily attributable to the increased capital expenditure for business expansion during the period.

CPVL will continue to strategically expand its business and plans to fund such capital investments through a combination of funds generated from operations, as well as short and long term debts.

As of 31 December 2010, CPVL had cash and cash equivalents of US$12 million.

**Dividend payment**

During 2010, CPVL paid cash and share dividend for a certain amount based on retained earnings balance as of 2009, which is in accordance with the shareholders' resolution dated 27 March 2010. Several factors were taken into account for dividend consideration, including the company's capital structure, funding requirement, etc.

**Foreign currency exposure**

CPVL operates in Vietnam, thus, most of operational transactions including sales generated from feed products, farm products and part of food products are denominated in local currency. Raw materials used in feed production are partially procured from overseas, such transactions are denominated in foreign currency. This foreign currency exposure is partially offset by export sales of food products, as CPVL exports all its aquatic products. Export sales are denominated in US Dollars.

**Charges on Target Group assets and contingent liabilities**

All loans are unsecured. There are no charge on the Target Group's assets or any contingent liabilities as at 31 December 2010.

**Contractual obligations and commitments**

*Operating lease commitment:*

CPVL leases land under operating lease arrangement. As at 31 December 2010, the minimum lease commitment under the operating lease agreements is VND 1,329 billion (US$68 million) in aggregate, which comprises of amount under certain contract term of less than 1 year, 1-5 years, and more than 5 years, of approximately VND128 billion (US$7 million), VND403 billion (US$21 million), and VND798 billion (US$41 million), respectively.

*Operating expenses commitments:*

CPVL has contractual commitment for purchase of raw material to be used for production. As at 31 December 2010, the outstanding letters of credit amounted to EUR 4.84 million and US$4.31 million respectively.

*Capital commitments:*

As at 31 December 2010, CPVL has a commitment approximately of VND129 billion (US$7 million), which is related to the construction of premises and acquisition of new machineries for its business expansion.

**Employees and remuneration policies**

| Year | Total Manpower | Total Remuneration *(VND billion)* | Total Remuneration *(US million)* |
|---|---|---|---|
| 2008 | 4,636 | 583 | 30 |
| 2009 | 5,268 | 884 | 45 |
| 2010 | 6,988 | 1,261 | 65 |

*Remark: Total remuneration includes salary, bonus, incentives, healthcare allowance, social insurance, etc.*

CPVL strictly complies with Vietnamese labor laws and regulations. Remuneration policies include, but not limited to, monthly salary and wages, overtime remuneration, special wages for working at night, holiday working remuneration, and annual bonus. CPVL arranges annual physical examination and provides uniform to certain group of employees. CPVL and its employees pay social insurance, health insurance and unemployment insurance according to the Vietnamese labor law. In addition, CPVL provides healthcare allowance, subsidised and in-house training program for its employees. There is no existing employee stock option at the latest practicable date.

**Key items of statement of financial position**

*Non-current assets*

Total non-current assets of CPVL as of December 2008, 2009 and 2010 was VND 2,514 billion (US$129 million), VND 3,224 billion (US$165 million) and VND 3,775 billion (US$194 million), respectively. Total non-current assets mainly comprise of property, plant and equipment, construction in progress and non-current livestock. Non-current livestock represents swine breeders (sow and boar) which are presented at fair market value. Total non-current assets continued to increase over the past few years reflecting CPVL's continuous business expansion.

*Inventories*

Inventories consist of raw materials, work in progress and finished goods. Raw materials mainly consist of grains and animal pharmaceutical items. Work in progress mainly consists of live animals in various ages and finished goods mainly consist of feed products and food products. The value of inventories as of December 31, 2008, 2009 and 2010 was VND1,987 billion (US$102 million), VND 3,039 billion (US$156 million) and VND 4,399 billion (US$226 million), respectively.

*Unit: VND billion*

| **Descriptions** | **2008** | **2009** | **2010** |
|---|---|---|---|
| Finished goods | 234 | 221 | 244 |
| Work in process | 76 | 89 | 228 |
| Raw materials | 1,128 | 1,906 | 3,276 |
| Tools and supplies | 61 | 61 | 104 |
| Goods in transit | 488 | 762 | 547 |
| **Total inventories** | 1,987 | 3,039 | 4,399 |

*Unit: US$ million*

| | **2008** | **2009** | **2010** |
|---|---|---|---|
| Finished goods | 12 | 11 | 13 |
| Work in process | 4 | 5 | 12 |
| Raw materials | 58 | 98 | 168 |
| Tools and supplies | 3 | 3 | 5 |
| Goods in transit | 25 | 39 | 28 |
| **Total inventories** | 102 | 156 | 226 |

Inventories increased by 53% or VND 1,051 billion (US$ 54 million) from VND 1,987 billion (US$ 102 million) in 2008 to VND 3,039 billion (US$ 156 million) in 2009, resulted mainly from CPVL's decision to maintain low inventory level in 2008 due to the then high commodity price. Raw materials were accumulated as of 31 December 2010 in order to plan for production and secure lower raw materials costs for early 2011.

*Current livestock*

Current livestock represents live animals including poultry breeders, piglets, fattening swines, pullets, broilers, layers, which are presented at fair market value. Current livestock continuously increased over the past few years reflecting CPVL's continuous business expansion.

*Trade and other payables*

Trade and other payables as of December 31, 2008, 2009 and 2010 was VND 710 billion (US$36 million), VND 1,230 billion (US$63 million) and VND 1,137 billion (US$58 million), respectively. The increasing trend of trade and other payables mirrors the increase in inventories and general business expansion of the company.

*Borrowings*

The total interest-bearing debt as of 31 December 2008, 2009 and 2010, was VND 2,828 billion (US$145 million), VND 3,471 billion (US$178 million) and VND 5,834 billion (US$299 million), respectively. Total interest-bearing debt consists of short-term loans and long-term loans, whereas short-term loans are mainly promissory notes for working capital purposes. Long-term loans mainly support feed business expansion. In 2008 to 2010, total borrowings increased, which was primarily attributable to the increased capital expenditure for business expansion during the period. As at 31 December 2010, total interest-bearing debt consists of short-term loans of VND 5,620 billion (US$288 million) and long-term loans of VND 214 billion (US$11 million). The outstanding long-term loans will be matured in 2011 and 2012. All borrowings are unsecured.

**Key cash flow items**

| | **Year Ended December 31,** | | |
|---|---|---|---|
| | **2008** | **2009** | **2010** |
| | | *VND billion* | |
| Operating activities: | | | |
| Cash flows from operating activities before working capital adjustments | 1,134 | 1,461 | 1,725 |
| Change in working capital | (860) | (191) | (2,177) |
| Net cash flows from (used in) operating activities | 274 | 1,270 | (452) |
| Investing activities: | | | |
| Purchase of property, plant and equipment | (960) | (774) | (530) |
| Cash used in other investing activities | (338) | (380) | (493) |
| Net cash used in investing activities | (1,298) | (1,154) | (1,023) |
| Financing activities: | | | |
| Increase in borrowings | 1,194 | 643 | 2,363 |
| Cash used for interest payment | (281) | (190) | (471) |
| Cash used for dividend payment | – | – | (962) |
| Net cash flows from financing activities | 913 | 453 | 930 |
| Net increase (decrease) in cash and cash equivalents | (111) | 569 | (545) |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | | *US$ millions* | |
| Operating activities: | | | |
| Cash flows from operating activities before working capital adjustments | 58 | 75 | 88 |
| Change in working capital | (44) | (10) | (112) |
| Net cash flows from (used in) operating activities | 14 | 65 | (24) |
| Investing activities: | | | |
| Purchase of property, plant and equipment | (49) | (40) | (27) |
| Cash used in other investing activities | (18) | (19) | (25) |
| Net cash used in investing activities | (67) | (59) | (52) |
| Financing activities: | | | |
| Increase in borrowings | 61 | 33 | 121 |
| Cash used for interest payment | (14) | (10) | (24) |
| Cash used for dividend payment | – | – | (49) |
| Net cash flows from financing activities | 47 | 23 | 48 |
| Net increase (decrease) in cash and cash equivalents | (6) | 29 | (28) |

*Net cash flows from (used in) operating activities*

In 2008, net cash flows from operating activities was VND 274 billion (US$14 million), consists of net cash inflows from operations of VND 1,134 billion (US$58 million) and net cash outflow from change in working capital of VND 860 billion (US$44 million). Net cash outflow from change in working capital mainly resulted from increase in livestock and inventories. Higher inventories balances were driven by an increase in raw material costs and inventory volume. However, inventories balances at the end of each year fluctuate as CPVL may increase its inventory level in anticipation of increasing raw material prices at different times of the year.

In 2009, net cash flows from operating activities was VND 1,270 billion (US$65 million), consist of net cash inflows from operations of VND 1,461 billion (US$75 million) and net cash outflow from change in working capital of VND 191 billion (US$10 million). Net cash outflow from change in working capital mainly resulted from increase in inventories offset by increase in trade and other payables and decrease in trade and other receivables. Higher inventories balances were driven by an increase in raw material costs and inventory volume.

In 2010, net cash outflow from operating activities was VND 452 billion (US$24 million), consists of net cash inflow from operations of VND 1,725 billion (US$88 million) and net cash outflow from change in working capital of VND 2,177 billion (US$112 million). Net cash outflow from change in working capital mainly resulted from increase in inventories and trade and other receivables. Higher inventories balances were driven by an increase in raw material costs and inventory volume.

*Net cash used in investing activities*

In 2008, net cash outflow from investing activities was VND 1,298 billion (US$67 million), consists of investment in property, plant and equipment of VND 960 billion (US$49 million), which mainly involves livestock/aquatic feedmill project (Binh Doung and BenTre project) and investment in existing business.

In 2009, net cash outflow from investing activities was VND 1,154 billion (US$59 million), consists of investment in property, plant and equipment of VND 774 billion (US$40 million), which mainly involves livestock/aquatic feedmill project (Binh Doung and BenTre project) and expansion of farming business.

In 2010, net cash outflow from investing activities was VND 1,023 billion (US$52 million), consists of investment in property, plant and equipment of VND 530 billion (US$27 million), which mainly involves livestock/aquatic feedmill project (Binh Doung and BenTre project) and investment in food processing plants.

*Net cash inflows from financing activities*

In 2008, net cash provided by financing activities was VND 913 billion (US$ 47 million), consists of net increase in interest-bearing debt of VND 1,194 billion (US$61 million) and partially offset by interest payment of VND 281 billion (US$ 14 million).

In 2009, net cash provided by financing activities was VND 453 billion (US$23 million), consists of net increase in interest bearing debt of VND 643 billion (US$33 million) and partially offset by interest payment of VND 190 billion (US$10 million).

In 2010, net cash provided by financing activities was VND 930 billion (US$48 million), consists of net increase in interest bearing debt of VND 2,363 billion (US$121 million) and partially offset by interest payment and dividend payment of VND 471 billion (US$24 million) and VND 962 billion (US$ 49 million), respectively. The significant increase of interest bearing debt was for financial business expansion, capital expenditure and working capital.

**PROSPECTS OF THE TARGET GROUP**

With its integrated business model and strong historical growth, the Target Group is poised to benefit from the attractive underlying food market in Vietnam. Total Vietnam demand for meat and seafood (including exports) was $11.5 billion in 2009, with historical growth rates of 10-20% per annum. The Target Group's market leading position will also allow it to further benefit from strong market growth and attractive market dynamics. Leveraging CPP Group's global know-how and its global distribution networks, the Target Group's poultry and swine businesses are well-positioned for growth trajectory, while its seafood business allows for further expansion opportunities.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN ORDINARY SHARES, UNDERLYING SHARES OR DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in Ordinary Shares, underlying shares and 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 for Securities Transactions by Directors of Listed Companies were as follows:

### (i) Directors' interests in shares of associated corporation

*(a) CPG*

| **Name of Director** | **Capacity** | **Number of shares held** *(Note)* | **Approximate percentage of the issued share capital of CPG** |
|---|---|---|---|
| Mr. Dhanin Chearavanont | Beneficial owner | 228,277,810 (L) | 12.96% |
| Mr. Thanakorn Seriburi | Beneficial owner | 11,322,605(L) | 0.64% |
| Mr. Damrongdej Chalongphuntarat | Beneficial owner | 160,150 (L) | 0.01% |

*(b) Kinghill Limited*

| Name of Director | Capacity | Number of shares held *(Note)* | Approximate percentage of the issued share capital of Kinghill Limited |
|---|---|---|---|
| Mr. Dhanin Chearavanont | Beneficial owner | 5,882,196 (L) | 2.80% |
| Mr. Thanakorn Seriburi | Beneficial owner | 947,000 (L) | 0.45% |
| Mr. Robert Ping-Hsien Ho | Beneficial owner | 50,000 (L) | 0.02% |

*Note:* The letter "L" denotes a long position.

**(ii) Directors' interests in share options granted by the Company**

Pursuant to a share option scheme adopted by the Company on 26 November 2002 (the "Scheme"), certain Directors were granted share options. As at the Latest Practicable Date, the interests of the Directors in options to subscribe for Ordinary Shares under the Scheme were as follows:

| Name of Director | Date of grant | Number of Ordinary Shares issuable upon exercise of options held as at the Latest Practicable Date | Price per Ordinary Share to be paid on exercise of options *HK$* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Dhanin Chearavanont | 26 February 2003 | 12,800,000 | 0.3900 | 0.09% |
| | 3 May 2004 | 12,800,000 | 0.3900 | 0.09% |
| | 19 May 2005 | 12,000,000 | 0.3540 | 0.08% |
| Mr. Thanakorn Seriburi | 26 February 2003 | 21,584,807 | 0.3900 | 0.14% |
| | 3 May 2004 | 20,000,000 | 0.3900 | 0.13% |
| | 19 May 2005 | 21,000,000 | 0.3540 | 0.14% |

| Name of Director | Date of grant | Number of Ordinary Shares issuable upon exercise of options held as at the Latest Practicable Date | Price per Ordinary Share to be paid on exercise of options<br>*HK$* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Meth Jiaravanont | 19 May 2005 | 21,000,000 | 0.3540 | 0.14% |
| Mr. Robert Ping-Hsien Ho | 26 February 2003 | 21,584,807 | 0.3900 | 0.14% |
| | 3 May 2004 | 20,000,000 | 0.3900 | 0.13% |
| | 19 May 2005 | 21,000,000 | 0.3540 | 0.14% |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in Ordinary 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 for Securities Transactions by Directors of Listed Companies.

## 3. SUBSTANTIAL SHAREHOLDERS AND PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SFO

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had the following interests or short positions in Ordinary Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the CPP Group.

| Name of Shareholder | Capacity/Nature of interest | *Notes* | Number of Ordinary Shares/ underlying shares held *(Note 1)* | Approximate percentage of the Company's issued ordinary share capital *(Note 2)* |
|---|---|---|---|---|
| CPI Holding Co., Ltd. | Beneficial owner | (3) | 1,004,014,695 (L) | 6.70% |
| C.P. Intertrade Co., Ltd. | Interest of controlled corporation | (3) | 1,004,014,695 (L) | 6.70% |
| OSIL | Beneficial owner and other interest | (4) | 19,578,426,125 (L)<br>3,503,700,001 (S) | 130.63%<br>23.38% |
| Vendor | Interest of controlled corporation and other interest | (4) & (5) | 20,059,676,125 (L)<br>3,503,700,001 (S) | 133.84%<br>23.38% |
| CPG | Interest of controlled corporation and other interest | (4) & (5) | 20,059,676,125 (L)<br>3,503,700,001 (S) | 133.84%<br>23.38% |
| Burnside Asia Holdings Limited | Beneficial owner and Other interest | (6) | 5,774,616,668 (L)<br>2,270,916,667 (S) | 38.53%<br>15.15% |
| CAP III Ltd. | Interest of controlled corporation | (6) | 5,774,616,668 (L)<br>2,270,916,667 (S) | 38.53%<br>15.15% |
| Carlyle Offshore Partners II, Ltd. | Interest of controlled corporation | (6) | 5,774,616,668(L)<br>2,270,916,667 (S) | 38.53%<br>15.15% |

| Name of Shareholder | Capacity/Nature of interest | *Notes* | Number of Ordinary Shares/ underlying shares held *(Note 1)* | Approximate percentage of the Company's issued ordinary share capital *(Note 2)* |
|---|---|---|---|---|
| D.E. Shaw Valence Portfolios, L.L.C. | Beneficial owner and interest of controlled corporation | (7) | 895,296,933 (L) | 5.97% |
| D.E. Shaw Composite Portfolios, L.L.C. | Interest of controlled corporation | (7) | 895,296,933 (L) | 5.97% |
| D.E. Shaw & Co., L.L.C. | Interest of controlled corporation | (7) | 895,296,933 (L) | 5.97% |
| D.E. Shaw & Co., II, Inc. | Interest of controlled corporation | (7) | 895,296,933 (L) | 5.97% |
| D.E. Shaw & Co. (Asia Pacific) Limited | Investment manager | (7) | 895,296,933 (L) | 5.97% |
| D.E. Shaw & Co. L.P. | Investment manager | (7) | 895,296,933 (L) | 5.97% |
| D.E. Shaw & Co., Inc. | Interest in controlled corporation | (7) | 895,296,933 (L) | 5.97% |
| David Elliot Shaw | Interest in controlled corporation | (7) | 895,296,933 (L) | 5.97% |

*Notes:*

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

(2) The percentage shown below is based on the number of Ordinary Shares in issue as at the Latest Practicable Date.

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

(4) OSIL has a long position in 19,578,426,125 Ordinary Shares and underlying shares, which represent (i) 8,745,891,089 Ordinary Shares; (ii) 3,300,540,621 Ordinary Shares upon full conversion of 3,300,540,621 Existing Convertible Preference Shares (assuming full repayment of the outstanding advances from the CPP Group to OSIL, subsidiaries, jointly-controlled entities and associates); (iii) other interest in 2,270,916,667 underlying shares; and (iv) the 2,000,000,000 New Ordinary Shares and CPS Conversion Shares upon full conversion of 3,261,077,748 New Convertible Preference Shares. OSIL also has a short position in 3,503,700,001 Ordinary Shares and underlying shares. The Vendor is deemed to be interested in the said shares held by OSIL for the purpose of SFO as OSIL is wholly-owned by the Vendor. CPG also declared interest in these shares by virtue of its shareholding in the Vendor.

(5) The Vendor has also declared interest in 481,250,000 Ordinary Shares which are beneficially owned by its wholly-owned subsidiary, Worth Access Trading Limited. CPG also declared in these share by virtue of its shareholding in the Vendor.

(6) Burnside Asia Holdings Limited ("Burnside") beneficially owned 2,595,333,334 Ordinary Shares 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 by virtue of its shareholding in Burnside whilst Carlyle Offshore Partners II, Ltd has also declared an interest in such number of shares by virtue of its shareholding in CAP.

(7) D. E. Shaw Valence Portfolios, L.L.C. beneficially owned 679,720,000 Ordinary Shares and it also declared an interest in 215,576,933 Ordinary Shares which are beneficially owned by its wholly-owned subsidiary. 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. Davie Elliot Shaw are deemed under SFO to be interested in the same 895,296,933 Ordinary Shares.

## 4. COMPETING INTERESTS

As at the Latest Practicable Date, 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 CPP Group which falls to be disclosed under the Listing Rules.

## 5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contracts with the Company or any other member of the CPP Group save for those expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

## 6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 7. INTERESTS IN ASSETS

Save as disclosed in this circular, so far as the Directors are aware, as at the Latest Practicable Date, none of the Directors or the experts referred to in paragraph 9 "Qualification and Consent of Experts" below has any direct or indirect interest in any assets of material importance to the Company which have been acquired or disposed of by or leased to or which are proposed to be acquired or disposed of by or leased to any member of the CPP Group since 31 December 2010, the date to which the latest published audited consolidated financial statements of the CPP Group were made up.

Save as disclosed in this circular, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the CPP Group taken as a whole.

## 8. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (other than contracts entered into in the ordinary course of business) which have been entered into by the Enlarged Group in the two years immediately preceding the date of this circular and which are or may be material:

(a) an agreement dated 11 December 2009 entered into between the Company and OSIL in connection with the acquisition of 100% interest in CP China Investment Limited at the consideration of HK$5,382,000,000, which would be satisfied by the allotment and issue of a total of 16,534,562,212 new Ordinary Shares and/or Existing Convertible Preference Shares of the Company (subject to possible deduction pursuant to the terms and conditions of the agreement);

(b) an agreement dated 8 March 2010 entered into between CP China Investment Limited, a wholly-owned subsidiary of the Company, and two banks in Thailand to amend certain terms under a term loan facility agreement dated 21 August 2008 relating to the facility amount of US$102,800,000;

(c) a loan agreement dated 19 April 2010 entered into between EK Chor China Motorcycle Co. Ltd, a wholly-owned subsidiary of the Company and ECI Metro Investment Co. Ltd., a company in which the Company holds a 50% indirect equity interest through its wholly-owned subsidiary in respect of a loan in the principal amount of up to US$29,000,000 (the "Existing Loan"), which was expired on 19 April 2011. The same parties entered into a new loan agreement dated 19 April 2011 in relation to the provision of a loan of a principal amount of up to US$29,000,000, which was used for repayment of the Existing Loan;

(d) the Acquisition Agreement;

(e) the Discloseable CCT Agreements; and

(f) the Revised CCT Agreements.

## 9. QUALIFICATION AND CONSENT OF EXPERTS

The following is the qualification of each of the experts who has given their letter for the inclusion in this circular:

| Name | Qualification | Nature of opinion or advice | Date of opinion |
|---|---|---|---|
| CIMB Securities (HK) Limited | a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO | Letter to the Independent Board Committee and the Independent Shareholders | 21 June 2011 |
| Ernst & Young | Certified Public Accountants | Accountants' Report of the Target Group | 21 June 2011 |

Each of CIMB Securities (HK) Limited and Ernst & Young has given and has not withdrawn their written consent to the issue of this circular with the inclusion of their letter and reference to their name in the form and context in which it appears.

As at the Latest Practicable Date, each of CIMB Securities (HK) Limited and Ernst & Young did not have any shareholding in the Company or any other member of the CPP Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the CPP Group.

## 10. MISCELLANEOUS

(a) The Company's registered office is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business is at 21st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(b) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The secretary of the Company is Ms. Chan Pui Shan, Bessie. She is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

(d) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 21st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong up to and including 22 July 2011:

(a) the memorandum of association and the bye-laws of the Company;

(b) the letter from the Independent Board Committee, the text of which is set out on page 45 of this circular;

(c) the letter from CIMB Securities (HK) Limited, the text of which is set out on pages 46 to 72 of this circular;

(d) the written consent from CIMB Securities (HK) Limited and Ernst & Young referred to in paragraph headed "Qualification and Consent of Experts" in this appendix;

(e) the annual reports of the Company for each of the two years ended 31 December 2010;

(f) the material contracts referred to the paragraph headed "Material Contracts" in this appendix; and

(g) a copy of each circular issued pursuant to the requirement set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts.

# C.P. POKPHAND CO. LTD.

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

**NOTICE IS HEREBY GIVEN** that a special general meeting of C.P. POKPHAND CO. LTD. (the "**Company**") will be held at 21st Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong on Friday, 22 July 2011 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (with or without modifications), of which the resolutions set out as Resolutions 1,2,3 will be proposed as ordinary resolutions and the resolutions set out as Resolutions 4 and 5 will be proposed as special resolutions of the Company:

## ORDINARY RESOLUTIONS

(1) "**THAT**, contingent upon the passing of the resolutions set out as Resolutions 2 and 3 (as ordinary resolutions) and Resolutions 4 and 5 (as special resolutions) in the notice convening this meeting:

(i) the acquisition agreement dated 30 May 2011 (the "**Acquisition Agreement**") (a copy of which is produced to the meeting marked "A" and initialed by the chairman of the meeting for identification purpose) entered into between the Company and the Vendor (as defined in the circular of the Company dated 21 June 2011, a copy of which is produced to the meeting marked "B" and initialed by the chairman of the meeting for identification purpose (the "**Circular**")) pursuant to which the Company has agreed to acquire the entire interest in Modern State (as defined in the Circular) (the "**Acquisition**"), and to issue 2,000,000,000 New Ordinary Shares (as defined in the Circular) and 3,261,077,748 New Convertible Preference Shares (as defined in the Circular) in satisfaction of the consideration for the Acquisition, in accordance with the terms and conditions of the Acquisition Agreement, and the transactions contemplated under the Acquisition Agreement and the implementation thereof be and are hereby confirmed, approved and ratified;

(ii) the issue of shares in the capital of the Company to the Vendor (and/or such other person(s) as it may nominate) in satisfaction of the total Consideration (as defined in the Circular) of HK$4,735 million in the following manner:

(a) the allotment and issuance of 2,000,000,000 New Ordinary Shares, credited as fully paid at an issue price of HK$0.90 per Ordinary Share; and

(b) the allotment and issuance of 3,261,077,748 New Convertible Preference Shares, credited as fully paid at an issue price of HK$0.90 per New Convertible Preference Share,

be and is hereby approved; and

(iii) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents (with or without the affixation of the common seal but to be countersigned by the secretary of the Company or by another director of the Company if the common seal of the Company is required to be affixed thereto), instructions and agreements and to do all such acts and things deemed by him to be incidental to, ancillary to, or in connection with the matters contemplated under this resolution."

(2) "**THAT**, contingent upon the passing of the resolutions set out as Resolutions 1 and 3 (as ordinary resolutions) and Resolutions 4 and 5 (as special resolutions) in the notice convening this meeting, the grant of a specific mandate to the directors of the Company for the allotment and issue of the New Ordinary Shares, the New Convertible Preference Shares and the CPS Conversion Shares (as defined in the Circular) be and is hereby approved."

(3) "**THAT**, contingent upon the passing of the resolutions set out as Resolutions 1 and 2 (as ordinary resolutions) and Resolutions 4 and 5 (as special resolutions) in the notice convening this meeting,

(i) the Revised Master CPP Supply Agreement (as defined in the Circular and a copy of which is produced to the meeting marked "C" and initialed by the chairman of the meeting for identification purpose) entered into between the Company and OSIL (as defined in the Circular) in relation to the supply of feed-related, farm-related and food-related products such as animal feed, chlortetracycline, animal drugs and feed raw materials, breeding and farming livestock, and processed meats and food products by the CPP Group (as defined in the Circular) to any related entity designated by OSIL in accordance with the terms and conditions of the Revised Master CPP Supply Agreement, and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;

(ii) the proposed annual caps in relation to the transactions under the Revised Master CPP Supply Agreement from the period commencing on the date on which the Revised Master CPP Supply Agreement becomes effective to 31 December 2011, and for the years ending 31 December 2012 and 2013, respectively, as set out in more details in the Circular, be and are hereby approved;

(iii) the Revised Master CPP Purchase Agreement (as defined in the Circular and a copy of which is produced to the meeting marked "D" and initialed by the chairman of the meeting for identification purpose) entered into between the Company and CPT (as defined in the Circular) in relation to the purchase from CPT and/or its related entities raw materials, machinery and equipment, promotional products, packaging materials, breed and farm livestock and aqua stock, meats and other items required for the production and sale of animal and aqua feed, farm and food products and chlortetracycline products by the CPP Group in accordance with the terms and conditions of the revised Master CPP Purchase Agreement, and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;

(iv) the proposed annual caps in relation to the transactions under the Revised Master CPP Purchase Agreement from the period commencing on the date on which the Revised Master CPP Purchase Agreement becomes effective to 31 December 2011, and for the years ending 31 December 2012 and 2013, respectively, as set out in more details in the Circular, be and are hereby approved; and

(v) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents (with or without the affixation of the common seal but to be countersigned by the secretary of the Company or by another director of the Company if the common seal of the Company is required to be affixed thereto), instructions and agreements and to do all such acts and things deemed by him to be incidental to, ancillary to, or in connection with the matters contemplated under this resolution."

## SPECIAL RESOLUTIONS

(4) "**THAT**:

(i) the authorised share capital of the Company be increased from US$500,000,000 divided into 30,000,000,000 ordinary shares of US$0.01 each and 20,000,000,000 restricted voting convertible preference shares of US$0.01 each, to US$600,000,000, divided into 36,000,000,000 ordinary shares of US$0.01 each, 20,000,000,000 restricted voting convertible preference shares of US$0.01 each (which shall be redesignated as "Series A Convertible Preference Shares"), and 4,000,000,000 restricted voting convertible preference shares of US$0.01 each (to be designated as "Series B Convertible Preference Shares"), by the creation of an additional 6,000,000,000 new ordinary shares of US$0.01 each and 4,000,000,000 new restricted voting convertible preference shares of US$0.01 each (to be designated as "Series B Convertible Preference Shares"); and

(ii) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such other documents (with or without the affixation of the common seal but to be countersigned by the secretary of the Company or by another director of the Company if the common seal of the Company is required to be affixed thereto), instructions and agreements and to do all such acts and things deemed by him to be incidental to, ancillary to, or in connection with the matters contemplated under this resolution."

(5) "**THAT** the bye-laws of the Company (the "Bye-Laws") be and are hereby amended in the following manner:

(i) by the amendment of Bye-Law 3(A) as follows:

"The share capital of the Company is divided into 36,000,000,000 ordinary shares of US$0.01 each, 20,000,000,000 restricted voting convertible preference shares of US$0.01 each (the "**Series A Convertible Preference Shares**"), and 4,000,000,000 restricted voting convertible preference shares of US$0.01 each (the "**Series B Convertible Preference Shares**") (together with the Series A Convertible Shares, the "**Convertible Preference Shares**"). The Convertible Preference Shares shall confer on the holders thereof the respective rights and privileges, and shall be subject to the respective restrictions, as set out in Bye-Law 5"; and

(ii) by amending Bye-Law 5 as follows:

**"CONVERTIBLE PREFERENCE SHARES**

**5. (A) Definitions**

Unless the contrary intention appears, the following expression have the following respective meanings in this Bye-Law 5:

| | |
|---|---|
| "Alternative Stock Exchange" | means any stock exchange other than the Exchange on which the Ordinary Shares, if not then listed on the Exchange, are listed; |
| "Business Day" | means a day (excluding Saturday, Sunday or a day on which typhoon signal no.8 or a "black" rainstorm warning is hoisted in Hong Kong) on which licensed banks are generally open for business in Bermuda and Hong Kong; |
| "CCASS" | means the Central Clearing and Settlement System established and operated by HKSCC; |
| "CCASS Clearing Participant" | means a person admitted to participate in CCASS as a direct clearing participant or general clearing participant; |
| "CCASS Custodian Participant" | means a person admitted to participate in CCASS as a custodian participant; |
| "CCASS Investor Participant" | means a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation; |
| "CCASS Participant" | means a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant; |

| | |
|---|---|
| "Conversion Date" | means the Business Day immediately following the date of surrender of the certificate in respect of the relevant Convertible Preference Shares and delivery of an effective Conversion Notice pursuant to Bye-Law 5(F); |
| "Conversion Event" | means the conversion of Convertible Preference Shares by a Convertible Preference Shareholder pursuant to Bye-Law 5(F)(i); |
| "Conversion Notice" | means a notice served by any Convertible Preference Shareholder from time to time stating that such Convertible Preference Shareholder wishes to exercise the Conversion Right in respect of one or more Convertible Preference Shares held by such Convertible Preference Shareholder; |
| "Conversion Price" | means as of any Conversion Date, the Issue Price, as adjusted from time to time in accordance with Bye-Law 5(G); |
| "Conversion Rate" | means the rate for conversion of the Convertible Preference Shares into Ordinary Shares as determined in accordance with Bye-Law 5(F)(iii); |
| "Conversion Right" | means the right, subject to the provisions of Bye-Law 5(F), of Convertible Preference Shareholders to convert any Convertible Preference Share into Ordinary Shares; |
| "Convertible Preference Shareholder" | means a registered holder of Convertible Preference Share(s), from time to time; |

| | |
|---|---|
| "Convertible Preference Shares" | means, as the case may be, the Series A Convertible Preference Shares and/or the Series B Convertible Preference Shares; |
| "Converting Shareholder" | means a Convertible Preference Shareholder all or some of whose Convertible Preference Shares are being or have been converted into Ordinary Shares; |
| "CPS Register" | means has the meaning given to it in Bye-Law 5(I) (i); |
| "Exchange" | means The Stock Exchange of Hong Kong Limited; |
| "HKSCC" | means Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited; |
| "Independent Financial Adviser" | means an independent investment bank of international repute reasonably selected by the Company and acting as an expert; |
| "Issue Date" | means the date of allotment and issue of the Convertible Preference Shares; |
| "Issue Price" | means, in respect of each Series A Convertible Preference Share, HK$0.3255, and in respect of each Series B Convertible Preference Share, HK$0.9000; |
| "Ordinary Shares" | means ordinary shares of US$0.01 each in the capital of the Company or, if there has been a sub-division, consolidation, re-classification or re-construction of the ordinary share capital of the Company, such ordinary shares forming part of the ordinary equity share capital of the Company of such other nominal amount as shall result from any such sub-division, consolidation, re-classification or reconstruction; |

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|---|---|
| "Public Float Requirement" | means the requirement under the Listing Rules applicable to the Company that not less than a specified percentage of the Ordinary Shares which are listed on the Exchange shall be held by the public for the purpose of the Listing Rules; |
| "Record Date" | means the date and time by which a subscriber or transferee of securities of the class in question would have to be registered in order to participate in the relevant distribution or rights; |
| "Series A Convertible Preference Shares" | means a class of unlisted restricted voting convertible preference shares of US$0.01 each in the capital of the Company, the rights of which are set out in this Bye-Law 5; |
| "Series B Convertible Preference Shares" | means a class of unlisted restricted voting convertible preference shares of US$0.01 each in the capital of the Company, the rights of which are set out in this Bye-Law 5; and |
| "Trading Day" | means any day on which the Exchange (or the Alternative Stock Exchange, as the case may be) is open for the business of dealing in securities. |

The Convertible Preference Shares shall confer on the Convertible Preference Shareholders the following rights and privileges, subject to the following restrictions and provisions.

**(B) Dividend**

Each Convertible Preference Share shall confer on the holder thereof the right to receive, out of the funds of the Company available for distribution and resolved to be distributed, dividend pari passu with holders of Ordinary Shares on the basis of the number of Ordinary Share(s) into which each Convertible Preference Share may be converted in accordance with Bye-Law 5(F) and on an as converted basis.

**(C) Distribution of Assets**

On a distribution of assets on liquidation, winding-up or dissolution of the Company (but not on conversion of Convertible Preference Shares or any repurchase by the Company of Convertible Preference Shares or Ordinary Shares), the assets and funds of the Company available for distribution among the members of the Company shall, subject to applicable laws, be applied in the following priority:

(i) firstly, in paying to the Convertible Preference Shareholders, pari passu as between themselves by reference to the aggregate nominal amounts of the Convertible Preference Shares held by them respectively, an amount equal to, respectively, the aggregate of the Issue Price of all of the Convertible Preference Shares held by them respectively; and

(ii) secondly, 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 of such assets, by reference to the aggregate nominal amounts paid up on 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 other shares not entitled to participate in such assets, by reference to the aggregate nominal amount of shares held by them respectively.

**(D) Ranking of the Convertible Preference Shares**

The Company shall not (unless such sanction has been given by the Convertible Preference Shareholders as would be required for a variation of the special rights attaching to the Convertible Preference Shares or unless otherwise provided in these Bye-Laws) create or issue any shares ranking, as regards order in the participation in the profits of the Company or in the assets of the Company on a winding-up or otherwise, senior and in priority to the Convertible Preference Shares.

**(E) Voting**

(i) The Convertible Preference Shares shall not confer on the Convertible Preference Shareholders the right to attend and vote at a general meeting of the Company, unless a resolution is to be proposed at a general meeting for winding-up of the Company or a resolution is to be proposed which if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the Convertible Preference Shareholders or vary the restrictions to which the Convertible Preference Shareholders are subject, in which event the Convertible Preference Shares shall confer on the Convertible Preference Shareholders the right to attend and vote at that general meeting, save that such Convertible Preference Shareholders may not vote upon any business dealt with at such general meeting except the election of a Chairman, any motion for adjournment and the resolution for winding-up or the resolution which if passed would (subject to any consents required for such purpose being obtained) so vary or abrogate the rights and privileges of the Convertible Preference Shareholders or vary the restrictions to which the Convertible Preference Shareholders are subject.

(ii) Where Convertible Preference Shareholders are entitled to vote on any resolution, at the relevant general meeting or class meeting, on a show of hands every Convertible Preference Shareholder who is present in person or by proxy or (being a corporation) by a representative shall have one vote, and on a poll, every Convertible Preference Shareholder who is present in person or by proxy or (being a corporation) by a representative shall have one vote for each Ordinary Share into which the Convertible Preference Shares held by him would be converted based on a Conversion Date for such Convertible Preference Shares being a date 2 days preceding the date of such general meeting or class meeting.

**(F) Conversion**

(i) The Convertible Preference Shares shall be convertible at the option of the Convertible Preference Shareholder, at any time after the Issue Date and without the payment of any additional consideration therefore, into such number of fully-paid Ordinary Shares as determined in accordance with the then effective Conversion Rate, provided that no Conversion Right may be exercised, to the extent that following such exercise, the Company would fail to comply with the Public Float Requirement.

(ii) The number of Ordinary Shares to which a Converting Shareholder shall be entitled upon conversion following a Conversion Event shall be the number obtained by multiplying the Conversion Rate then in effect by the number of Convertible Preference Shares being converted.

(iii) The Conversion Rate of each Convertible Preference Share shall be determined by dividing the Issue Price of each Convertible Preference Share by the Conversion Price in effect at the time of conversion provided that the Conversion Price shall not be less than the then subsisting nominal value of an Ordinary Share into which such Convertible Preference Share is convertible.

(iv) (aa) Any Convertible Preference Shareholder who wishes to convert one or more Convertible Preference Shares held by it pursuant to Bye-Law 5(F) (i) shall deliver to the Company at its principal place of business in Hong Kong a Conversion Notice. The Conversion Notice shall be deemed to have been served on the fifth (5th) Business Day following the day of posting if sent by registered post (for pre-paid airmail if posted from outside Hong Kong).

(bb) The relevant Convertible Preference Shareholder shall deliver to the Company at its principal place of business in Hong Kong for surrender the certificate(s) evidencing the Convertible Preference Shares to be converted or, if such certificates have been lost or destroyed, such evidence of title as the Company may reasonably require, at the same time and together with the Conversion Notice given by such Convertible Preference Shareholder pursuant to Bye-Law 5(F)(iv)(aa) above.

(cc) Upon delivery of the Conversion Notice and the certificate(s) evidencing the Convertible Preference Shares to be converted by the holder thereof to the Company, the Company shall promptly and, in any event no later than five (5) Business Days after the date of receipt of such Conversion Notice and certificate(s):

(1) issue and deliver to such Convertible Preference Shareholder (a) certificate(s) for the number of Ordinary Shares into which the Convertible Preference Shares are converted in the name as shown on the certificate(s) evidencing the Convertible Preference Shares so surrendered to the Company; or

(2) (if so instructed by the Converting Shareholder in the Conversion Notice) issue in the name of HKSCC Nominee Limited, cause to be deposited into CCASS and credited into the CCASS Investor Participant stock account or the stock account of the designated CCASS Participant as instructed in the Conversion Notice such number of Ordinary Shares into which the Convertible Preference Shares are converted,

in each case together with cash in lieu of any fraction of an Ordinary Share in accordance with Bye-Law 5(F)(vi).

(v) The Company shall ensure that at all times there is a sufficient number of unissued Ordinary Shares in its authorized share capital to be issued in satisfaction of the Conversion Rights of Convertible Preference Shares.

(vi) No fraction of an Ordinary Share arising on conversion will be allotted to the Converting Shareholder of the relevant Convertible Preference Share(s) otherwise entitled thereto but such fractions will, when practicable, be aggregated and sold and the net proceeds of sale will then be distributed pro rata among such Convertible Preference Shareholders unless in respect of any holding of relevant Convertible Preference Shares the amount to be so distributed would be less than HK$100 (or its equivalent in another currency at a prevailing exchange rate selected by the Directors), in which case such amount will not be so distributed but will be retained for the benefit of the Company. Unless otherwise agreed between the Company and a Converting Shareholder, if more than one Convertible Preference Share shall fail to be converted pursuant to any one Conversion Notice, the number of Ordinary Shares to be issued upon conversion shall be calculated on the basis of the aggregate Issue Price of the relevant Convertible Preference Shares. For the purpose of implementing the provisions of this sub-paragraph, the Company may appoint some person to execute transfers, renunciations or other documents on behalf of persons entitled to any such fraction and generally may make all arrangements which appear to it to be necessary or appropriate for the settlement and disposal of fractional entitlements.

(vii) Notwithstanding anything to the contrary herein, if the issue of Ordinary Shares following the exercise by a Convertible Preference Shareholder of the Conversion Rights relating to any of the Convertible Preference Shares held by such Convertible Preference Shareholder would result in the Company not meeting the Public Float Requirement immediately after the conversion, then the number of Ordinary Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not in the reasonable opinion of the Company result in a breach of the Public Float Requirement and the balance of the Conversion Rights attached to the Convertible Preference Shares which the Convertible Preference Shareholder sought to convert shall be suspended until such time when the Company is able to issue new Ordinary Shares in satisfaction of the exercise of the said balance of Conversion Rights and at the same time comply with the Public Float Requirement.

(viii) In the event that Bye-Law 5(F)(vii) above shall affect the exercise of the Conversion Right of any Convertible Preference Shareholder, the Company shall use reasonable endeavours to procure that there will be a sufficient number of Ordinary Shares in public hands so that all Convertible Preference Shares suspended from conversion may be converted as soon as practicable without causing the Company to breach the Public Float Requirement.

**(G) Conversion Price Adjustments**

(i) The Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of Bye-Law 5(G)(i)(aa) to (ff) inclusive, it shall fall within the first of the applicable clauses to the exclusion of the remaining provisions:

(aa) if and whenever the Ordinary Shares by reason of any consolidation or sub-division or reclassification become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division or reclassification becomes effective;

(bb) if and whenever the Company shall:

(1) issue (other than in lieu of a cash dividend) any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves or issue any Ordinary Shares credited as fully paid bonus shares by applying the share premium account; or

(2) issue Ordinary Shares paid out of distributable profits or reserves issued in lieu of the whole or any part of a cash dividend, being a dividend which the holders of the Ordinary Shares concerned would or could otherwise have received but only to the extent that the market value of such Ordinary Shares exceeds 110% of the amount of dividend which holders of the Ordinary Shares could elect to or would otherwise receive in cash and which would not have constituted a capital distribution (as defined in Bye-Law 5(G)(ii)) (for which purpose the "**market value**" of an Ordinary Share shall mean the average of the closing prices published in the Exchange's daily quotation sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) for one Ordinary Share for the five (5) Trading Days ending on the last Trading Day immediately preceding the last day on which holders of Ordinary Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash),

then the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Ordinary Shares immediately before such issued and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Ordinary Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day next following the record date for such issue;

(cc) if and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Ordinary Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the closing price published in the Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) in respect of one Ordinary Share on the Trading Day immediately preceding the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or failing any such announcement, the date of the capital distribution or the grant, as the case may be, as determined in good faith by the Independent Financial Adviser, of the portion of the capital distribution or of such rights which is/are attributable to one Ordinary Share,

Provided that:

(1) if, in the opinion of the relevant Independent Financial Adviser, the use of the fair market value as aforesaid produces a result which is significantly inequitable, the Independent Financial Adviser may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the closing price published in the Exchange's daily quotation sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) of one Ordinary Share which should properly be attributed to the value of the capital distribution or rights; and

(2) this Bye-Law 5(G)(i)(cc) shall not apply in relation to the issue of Ordinary Shares paid out of profits or reserves and issued in lieu of a cash dividend. Each such adjustment shall be effective (if appropriate, retrospectively) from the commencement of the day following the record date for the capital distribution or grant;

(dd) if and whenever the Company shall offer to all holders of Ordinary Shares new Ordinary Shares for subscription by way of rights, or shall grant to all holders of Ordinary Shares any options or warrants to subscribe for new Ordinary Shares, at a price per new Ordinary Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant (whether or not such offer to grant is subject to the approval of the holders of Ordinary Shares or other persons), the Conversion Price in force immediately before the date of the announcement of such offer or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{G + H}{G + I}$$

where:

G = the number of Ordinary Shares in issue immediately before the date of such announcement;

H = the number of Ordinary Shares which the aggregate of the two following amounts would purchase at such market price:

(1) the total amount (if any) payable for the rights, options or warrants being offered or granted; and

(2) the total amount payable for all of the new Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted; and

I = the aggregate number of Ordinary Shares being offered for subscription or comprised in the rights, options or warrants being granted.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the relevant offer or grant;

(ee) (1) if and whenever the Company or any of its subsidiaries shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Ordinary Shares, and the total Effective Consideration per new Ordinary Share initially receivable for such securities is less than the Conversion Price in force at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Ordinary Shares or other persons), the Conversion Price in force immediately prior to such announcement shall be adjusted to a price equal to the total Effective Consideration per new Ordinary Share initially receivable for such securities.

Such adjustment shall become effective (if appropriate retroactively) from the close of business on the Business Day immediately preceding the date on which the issue is announced or the date on which the issuer of the relevant securities determines the conversion or exchange rate or subscription price in respect of such securities (whichever is earlier).

(2) If and whenever the rights of conversion or exchange or subscription attaching to any such securities as are mentioned in Bye-Law 5(G)(i)(ee)(1) are modified so that the total Effective Consideration per new Ordinary Share initially receivable for such securities shall be less than the Conversion Price in force at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price in force immediately prior to such announcement shall be adjusted to a price equal to the total Effective Consideration per new Ordinary Share receivable for such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

(3) For the purposes of this Bye-Law 5(G)(i)(ee)(3):

(aaa) the "**total Effective Consideration**" receivable for the securities issued shall be deemed to be the aggregate consideration receivable by the issuer for such securities for the issue thereof plus the additional minimum consideration (if any) to be received by the issuer and/or the Company (if not the issuer) upon (and assuming) the full conversion or exchange thereof or the exercise in full of the subscription rights attaching thereto; and

(bbb) the "**total Effective Consideration per new Ordinary Share**" initially receivable for such securities shall be such aggregate consideration divided by the maximum number of new Ordinary Shares to be issued upon (and assuming) the full conversion or exchange thereof at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching thereto at the initial subscription price, in each case, without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof;

(ff) If and whenever the Company makes an offer or invitation to holders of Ordinary Shares to tender for sale to the Company any Ordinary Shares or if the Company shall purchase any Ordinary Shares or securities convertible into Ordinary Shares or any rights to acquire Ordinary Shares (excluding any such purchase made on the Exchange or any Alternative Stock Exchange, as the case may be) and the Board considers that it may be appropriate to make an adjustment to the Conversion Price in force, at that time, the Board shall appoint an Independent Financial

Adviser to consider whether, for any reason whatever as a result of such purchases, an adjustment should be made to the Conversion Price in force immediately prior to such purchases fairly and appropriately to reflect the relative interests of the persons affected by such purchases by the Company and, if the Independent Financial Adviser shall consider in its opinion that it is appropriate to make an adjustment to such Conversion Price, an adjustment to such Conversion Price shall be made in such manner as the Independent Financial Adviser shall certify to be, in its opinion, appropriate. Such adjustment shall become effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding the date on which such purchases by the Company are made.

(ii) For the purposes of Bye-Law 5(G)(i):

"**announcement**" shall include the release of an announcement to the press or the delivery or transmission by telephone, telex, facsimile transmission or otherwise of an announcement to the Exchange (or the Alternative Stock Exchange, as the case may be), "**date of announcement**" shall mean the date on which the announcement is first so released, delivered or transmitted and "**announce**" shall be construed accordingly;

"**capital distribution**" shall (without prejudice to the generality of that phrase) include distributions in cash or specie, and any dividend or distribution charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend shall not automatically be so deemed if:

(aa) it is paid out of the net profits (less losses) attributable to the holders of Ordinary Shares for all financial periods after that ended 31 December as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or

(bb) to the extent that (i) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the Independent Financial Adviser appropriate to the circumstances and shall be made in the event that the lengths of such period differ materially;

"**issue**" shall include allot;

"**market price**" means the average of the closing prices published in the Exchange's Daily Quotation Sheet (or the equivalent quotation sheet of the Alternative Stock Exchange, as the case may be) for one Ordinary Share for the five (5) Trading Days ending on the last Trading Day immediately preceding the day on or as of which such price is to be ascertained PROVIDED THAT if at any time during the said five (5) Trading Days, the Share shall have been quoted ex-dividend and during some other part of that period, the Ordinary Shares shall have been quoted cum-dividend, then:

(aa) if the Ordinary Shares to be issued do not rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share; and

(bb) if the Ordinary Shares to be issued rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the amount of that dividend per Ordinary Share;

(iii) If the Conversion Price is adjusted with effect (retroactively or otherwise) from a date on or before the date on which the names of the Convertible Preference Shareholders whose Convertible Preference Shares are converted into Ordinary Shares pursuant hereto or the names of such other persons as they may direct are entered into the register of holders of Ordinary Shares of the Company and such Convertible Preference Shareholders' entitlement were arrived at on the basis of unadjusted Conversion Price, the Company shall procure that such number of Ordinary Shares which would have been required to be issued on conversion of such Convertible Preference Shares if the relevant adjustment had been given effect to as at the date of conversion shall be allotted and issued to such Convertible Preference Shareholders or such other persons as they may direct.

(iv) The provisions of Bye-Law 5(G)(i) shall not apply to:

(aa) an issue of fully-paid Ordinary Shares upon the exercise of any conversion rights attached to securities convertible into Ordinary Shares that exist at the Issue Date;

(bb) an issue of Ordinary Shares or other securities of the Company or any subsidiary wholly or partly convertible into, of carrying rights to acquire, Ordinary Shares to the directors or employees or the Company or any of its subsidiaries pursuant to an employee share option scheme adopted by the Company; and

(cc) an issue by the Company of Ordinary Shares or by the Company or its subsidiary of securities wholly or partly convertible into or carrying rights to acquire Ordinary Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business.

(v) Notwithstanding the provisions of Bye-Law 5(G)(i), in any circumstances where the Directors shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or at a different time from that provided for under the provisions, the Company may appoint the Independent Financial Adviser, to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if the Independent Financial Adviser shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner including without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time as shall be certified by the Independent Financial Adviser to be in its opinion appropriate.

(vi) Any adjustment to the Conversion Price shall be made to the nearest cent so that any amount under half a cent shall be rounded down and an amount of half a cent or more shall be rounded up and in no event shall any adjustment (otherwise than upon the consolidation of Ordinary Shares into shares of a larger nominal amount or upon a repurchase of Ordinary Shares) involve an increase in the Conversion Price.

(vii) No adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions would be less than one cent.

(viii) Where the result of any act or transaction of the Company, having regard to the provisions of Bye-Law 5(G), would be to reduce the Conversion Price to below the nominal amount of an Ordinary Share, no adjustment to the Conversion Price shall be made pursuant to any of the relevant provisions of Bye-Law 5(G).

(ix) Whenever the Conversion Price is adjusted, the Company shall give notice to the Convertible Preference Shareholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof).

**(H) Redemption**

The Convertible Preference Shares shall be non-redeemable by the Company or the holders thereof.

**(I) Registration**

(i) The Company shall maintain and keep a full and complete register ("**CPS Register**") as required by applicable laws for purposes of determining the Convertible Preference Shares in issue and the Convertible Preference Shareholders and recording any transfer, purchase, conversion and/or cancellation of the Convertible Preference Shares and the destruction of any replacement certificate in respect of the Convertible Preference Shares issued in substitution for any mutilated, defaced, lost, stolen or destroyed certificate in respect of the Convertible Preference Shares and of sufficient identification details of all Convertible Preference Shareholders from time to time holding the Convertible Preference Shares.

(ii) As soon as practicable, and in any event not later than five (5) Business Days after the Conversion Date, the Company will register or procure that its agent register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Ordinary Shares in the CPS Register and will mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any property required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof.

(iii) Convertible Preference Shares which are converted will be cancelled by removal of the holder's name from the CPS Register on the relevant Registration Date (as defined in Bye-Law 5(I)(v) below).

(iv) If the Registration Date in relation to any Convertible Preference Share shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in this Bye-Law and the relevant Registration Date falls on a date when the relevant adjustment has not yet been reflected in the then current Conversion Price, the Company will procure that the provisions of Bye-Law 5(I)(ii) above shall be applied mutatis mutandis to such number of Ordinary Shares as is equal to the excess of the number of Ordinary Shares which would have been required to be issued on conversion of such Convertible Preference Share if the relevant retroactive adjustment had been given effect as at the said Registration Date over the number of Ordinary Shares previously issued (or which the Company was previously bound to issue) pursuant to such conversion, and in such event and in respect of such number of Ordinary Shares references to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively).

(v) The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Ordinary Shares issuable upon conversion with effect from the date he is or they are registered as such in the CPS Register (the "**Registration Date**"). Save as set out in this Bye-Law 5(I), a holder of Ordinary Shares issued on conversion of Convertible Preference Shares shall not be entitled to any rights the Record Date for which precedes the relevant Registration Date.

**(J) Undertakings**

So long as any Convertible Preference Share remains capable of being converted into Ordinary Shares:

(i) the Company will use all reasonable endeavors (1) to maintain a listing for all the issued Ordinary Shares on the Exchange and (2) to obtain and maintain a listing for any Ordinary Shares issued upon conversion of the Convertible Preference Shares on the Exchange (or the Alternative Stock Exchange, as the case may be);

(ii) the Company will send to each Convertible Preference Shareholder, for their information, one copy of every circular, notice or other document sent to Members in the Company holding Ordinary Shares, at the same time as it is sent to such other Members;

(iii) the Company shall procure that there shall be sufficient authorised but unissued share capital available for the purposes of satisfying the requirements of any Conversion Notice as may be given and the terms of any other securities for the time being in issue which are convertible into or have the right to subscribe shares in the Company;

(iv) the Company shall not without the consent of the Convertible Preference Shareholders as a class, obtained in the manner provided in the Bye-Laws, or unless otherwise permitted pursuant to the Bye-Laws modify, vary, alter or abrogate the rights attaching to the Convertible Preference Shares as a class; and

(v) the Company shall pay all fees, capital and stamp duties payable in Hong Kong, if any, in respect of the issue of Ordinary Shares upon conversion of any Convertible Preference Shares.

**(K) Taxation**

(i) All payments in respect of the Issue Price shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Hong Kong or any authority therein or thereof unless the withholding or deduction of such taxes, duties, assessments of governmental charges is required by law. In that event, subject to the Company having sufficient profits available for distribution, the Company shall pay such additional amounts as may be necessary in order that the net amounts received by the Convertible Preference Shareholders after such withholding or deduction shall equal the respective amounts of Issue Price and nominal amount which would have been receivable in respect of the Convertible Preference Shares in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Convertible Preference Shareholder:

(aa) who is liable to such taxes, duties, assessment or governmental charges in respect of such Convertible Preference Shares by reason of his having some connection with Hong Kong other than by virtue of his being a Convertible Preference Shareholder; or

(bb) receiving such payment in Hong Kong and who would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other similar claim for exemption to the Hong Kong tax authority but fails to do so.

(ii) To the extent that the Company shall have insufficient profits available for distribution in order to permit it to pay all or any of such additional amounts as aforesaid the amount of any shortfall shall be treated for all purposes as arrears of dividend.

**(L) Payments**

(i) Payment of all amounts in respect of the Convertible Preference Shares under the terms and conditions thereof shall be made on the due dates into such bank account in as the holder of the relevant Convertible Preference Share may notify the Company by at least seven (7) days prior notice in writing from time to time. All payments made by the Company in respect of the Convertible Preference Shares pursuant to the terms and conditions of this Bye-Law 5 shall be made in Hong Kong dollars in immediately available funds.

(ii) If the due date for payment of any amount in respect of the Convertible Preference Shares is not a Business Day, the Convertible Preference Shareholder will be entitled to payment on the next following Business Day in the same manner together with interest accrued in respect of any such delay.

(iii) All payments or distributions with respect to Convertible Preference Shares held jointly by two or more persons shall be paid or made to whichever of such persons is named first in the CPS Register and the making of any payment or distribution in accordance with this sub-paragraph shall discharge the liability of the Company in respect thereof.

**(M) Transfer**

The Convertible Preference Shares may be assigned or transferred by the holder thereof without restriction, in whole or in part, and the Company shall facilitate any such assignment or transfer of the Convertible Preference Shares, including making any necessary applications to the Exchange or any other regulatory authority for the said approval (if so required).

**(N) Listing**

No application will be made for the listing of the Convertible Preference Shares on the Exchange or any other stock exchange.

**(O) Inconsistency**

If there is any inconsistency between any provisions of this Bye-Law 5 and any other provision of these Bye-Laws, then this Bye-Law 5 prevails to the extent of the inconsistency except where this would result in a breach of Bermuda law, including the Companies Act 1981 of Bermuda (as amended) or any other applicable law."

By order of the Board
**Chan Pui Shan, Bessie**
*Company Secretary*

Hong Kong, 21 June 2011

*Notes:*

1. A form of proxy for use at the meeting is being dispatched to the shareholders of the Company together with the Circular.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorized to sign the same.

3. Any shareholder entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's Registrar in Hong Kong at Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

5. Completion and deposit of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

7. The votes to be taken at the meeting will be by way of poll.