

## BUSINESS REVIEW

The first half of 2003 was a period of challenges for our core business and our operations sustained a loss during the period. Consolidated turnover was US\$759.0 million (2002: US\$705.0 million). Consolidated loss from operating activities was US\$5.9 million (2002: profit of US\$70.8 million). Net loss from ordinary activities attributable to shareholders was US\$31.1 million (2002: net profit of US\$47.6 million).

## PRC

### *Agri-business*

Our agri-business operations in the PRC faced an unfavourable operating environment during the period under review. Turnover under management was US\$988.2 million (2002: US\$1,082.0 million). Turnover on a consolidated basis was US\$669.8 million (2002: US\$647.1 million), a slight increase by 3.5%. Consolidated loss attributable to shareholders of this division during the period was US\$34.7 million (2002: profit of US\$46.6 million). Unit sales of our two main products, complete feed and day-old chicks, were 2.3 million tonnes (2002: 2.4 million tonnes) and 167.8 million units (2002: 189.4 million units) respectively.

The outbreak of severe acute respiratory syndrome (SARS) in part of the PRC in the first half of 2003 had an adverse impact on the Group's agri-businesses operating across the country. The business-related travelling of our purchasing and sales staffs, the movement of raw materials required for production and the delivery of our finished products suffered interruptions at some locations and sales were retarded due to lowered consumption. These adverse factors had complicated an already challenging operating environment due to the increased costs of the raw materials required for feed production since December 2002. As a result, gross profit margin declined significantly.

In addition, the outburst of a fire in our Qingdao operation in April 2003 and the re-introduction of an import ban by Japan on poultry products from the PRC since 12th May, 2003 have adversely affected the Group's chicken meat export as Japan is our primary market for export.

During the period under review, the Group disposed of 49,562,783 shares (2002: 100,935,116 shares) in Shanghai Dajiang (Group) Stock Co. Ltd. ("Shanghai Dajiang") and recorded a gain of US\$3.4 million (2002: US\$44.0 million). As at 30th June, 2003, the Group's interest in Shanghai Dajiang was 1.4% (31st December, 2002: 8.7%).





### *Industrial business*

Ek Chor China Motorcycle Co. Ltd. ("EKC"), our subsidiary, previously listed on the New York Stock Exchange, registered improved results. Net income attributable to the Group was US\$3.5 million as compared to US\$1.5 million in the same period of 2002.

On 16th April, 2003, EKC announced its privatization by way of a scheme of arrangement under Bermuda law. The privatization was duly approved at the Court Meeting and Special General Meeting both held on 12th June, 2003. With the satisfaction of all requirements prescribed by the relevant authority, EKC was privatized and became a wholly-owned subsidiary of the Company on 23rd June, 2003. The listing status of EKC's shares was then withdrawn from the New York Stock Exchange. The gain from privatization was recognized as negative goodwill in the Condensed Consolidated Balance Sheet.

### **Turkey**

Our Turkish operation continued to perform satisfactorily and recorded a profit attributable to shareholders of US\$5.5 million (2002: US\$6.1 million).

### **Indonesia**

The Group maintains a 19.75% interest in P.T. Surya Hidup Satwa and a 7.09% interest in P.T. Central Proteinaprima.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Liquidity and financial resources**

As at 30th June, 2003, the Group had total assets of US\$1,064.0 million, down 4.1% from US\$1,109.1 million at the year end of 2002. Total debt and debt to equity ratio (debt to equity ratio is calculated by dividing the total debt by the net asset value) were US\$630.0 million and 329.7% respectively, as compared to US\$659.9 million and 283.1% as at 31st December, 2002.

Most of the borrowings by the Group are in U.S. dollars and Renminbi and the interest rates ranged from 2.22% to 6.90% per annum for the period.

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

### **Capital structure**

The Group finances its working capital requirements through a combination of funds generated from operations, short term and long term bank loans, floating rate notes and from the disposal of certain assets and investments. The Group had cash and cash equivalents of US\$86.4 million as at 30th June, 2003 (31st December, 2002: US\$95.6 million), a decrease of US\$9.2 million.



### Charges on group assets

As at 30th June, 2003, out of the total borrowings of US\$630.0 million (31st December, 2002: US\$659.9 million) obtained by the Group, only US\$146.1 million (31st December, 2002: US\$123.5 million) were secured and accounted for 23.2% (31st December, 2002: 18.7%) of the total. Certain of the Group's fixed assets located in the PRC with net book value of US\$255.3 million (31st December, 2002: US\$195.4 million) have been pledged as security for various short and long term bank loans.

### Contingent liabilities

As at 30th June, 2003, the guarantees provided by the Group was US\$27.2 million (31st December, 2002: US\$27.2 million).

### Employee and remuneration policies

As at 30th June, 2003, the Group employed around 53,000 staff (including 21,000 staff from the jointly controlled entities and associates) in the PRC, Hong Kong and Turkey. The Group remunerates its employees based on their performance, experience and prevailing market rate while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidized training programme as well as share option scheme.

### RESTRUCTURING

The Company has made a distribution of US\$28.0 million during the period, amounting to an aggregate distribution of US\$333.4 million. Moreover, the Company's creditors have agreed to an amended debt reduction schedule and an extension of the period of the restructuring by 12 months to 31st December, 2004 subject to the completion of relevant documentation.

### OUTLOOK

The business conditions in the second half of 2003 is expected to remain challenging. We will endeavour to streamline our business and improve our operating efficiency.