MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30th June, 2005, the Group had total assets of US$886.6 million (31st December, 2004: US$897.1 million). Total debt and debt to equity ratio (debt to equity ratio is calculated by dividing the total borrowings by the net asset value) were US$488.5 million and 305.3% respectively, as compared to US$553.9 million and 538.7% as at 31st December, 2004.

Most of the borrowings by the Group are in U.S. dollars and RMB, and the interest rates ranged from 3.0% to 8.4% 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 and short term and long term bank loans. The Group had cash and cash equivalents of US$54.3 million as at 30th June, 2005 (31st December, 2004: US$74.4 million), a decrease of US$20.1 million.

Charges on Group assets

As at 30th June, 2005, out of the total borrowings of US$488.5 million (31st December, 2004: US$553.9 million) obtained by the Group, only US$164.5 million (31st December, 2004: US$175.0 million) were secured and accounted for 33.7% (31st December, 2004: 31.6%) of the total. Certain of the Group's fixed assets located in the PRC with net book value of US$244.7 million (31st December, 2004: US$250.0 million) have been pledged as security for various short and long term bank loans.

Contingent liabilities

As at 30th June, 2005, the guarantees provided by the Group was US$26.2 million (31st December, 2004: US$14.4 million).

Employee and remuneration policies

As at 30th June, 2005, the Group employed around 44,000 staff (including 13,000 staff from the jointly controlled entities and associates) in the PRC and Hong Kong. The Group remunerates its employees based on their performances, experience and prevailing market rates while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical coverage, subsidized training programme as well as a share option scheme.

PROSPECTS

Looking ahead, the Group will strive to improve the profitability of its agribusiness by adjusting its product mix to include more high-margin products. To this end, the Group will continue to invest resources in R&D, seeking to blend market needs, consumer tastes and advanced technologies in product development, and further expand product offerings. Besides, the Group will invest in more advanced equipment and processing technologies to ensure the high quality of its products. All these initiatives are expected to give sales a significant boost.

On the industrial front, market demands for the Group's industrial products are expected to remain stable in the second half of the year along with the consistent growth trend of the national economy. The Group will strive to further improve the performance of its industrial business by focusing on the market expansion and enhancement of operational efficiency.