MANAGEMENT'S DISCUSSION AND ANALYSIS

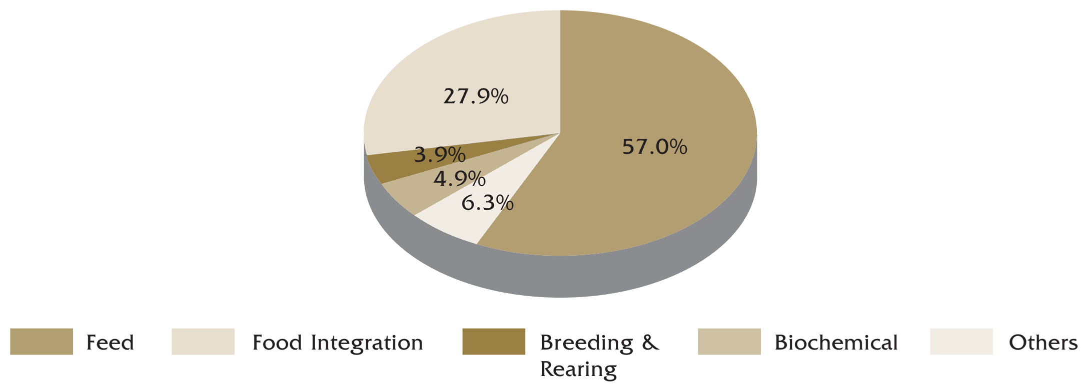
BUSINESS REVIEW

For the six months ended 30th June, 2006, C.P. Pokphand Co. Ltd. ("CPP" or the "Company") and its subsidiaries (the "Group") recorded a loss attributable to equity holders of US$41.1 million. Compared with the same period in 2005, the consolidated turnover decreased from US$846.9 million to US$789.3 million, representing a decrease of approximately 6.8%, while overall gross profit margin decreased from 12.4% to 8.1%.

Agribusiness

Compared with the same period in 2005, the consolidated turnover of the Group's agribusiness decreased by 6.8% to US$789.3 million. The drop was the result of a slowdown in the breeding and rearing industry in China, a reduction in the demand for feed and Day-Old-Chicks ("DOCs"), and also the changing business environment in the poultry meat business in China. Good news is that the adverse market environment has not prevented CPP from developing advanced production technologies, practicing farm management standardization and having superior livestock breeding. Furthermore, the Group continues to pursue its development of aquaculture, swine and layer businesses.

Consolidated turnover analysis – by activity



Feed

In the first half of 2006, feed remained the largest contributor to the Group in sales, accounting for 57.0% of the Group's consolidated turnover (2005: 56.8%). During the period, consolidated turnover was US$449.9 million and gross profit was US$56.9 million.

According to the report "Feed Market Trend Analysis for the 1st half of 2006" issued by the Ministry of Agriculture of the People's Republic of China, the country's total feed production volume decreased 9.2% to 43.0 million tones compared with the corresponding period of 2005. This drop was attributed to the diminishing return seen by the animal breeders which reduced the demand for feed.

According to the Ministry of Agriculture of the People's Republic of China, the domestic market price of broilers and swine feed was RMB2.1/kg and RMB1.8/kg, respectively, indicating a 3.9% and 4.0% drop from the same period last year. Operating under this unfavorable feed market environment, the Group's total feed sales declined 6.4% from the same period last year while gross profit margin went down 2.8%, from 15.4% to 12.6%.

Feed (continued)

The Group's feed products include chicken, swine, aqua, duck and cattle feed, among which poultry and swine accounted for 50% and 38%, respectively, of the total feed sales. Aqua sales increased to 6.3% as a result of the Group's gradual expansion into this business sector. Yet, the aqua feed sector is still in a stage of continuing development; up to now, production volume of aqua feed has reached 91,000 tones.

Food Integration

The food integration business accounted for about 27.9% of the Group's consolidated turnover in the first half of 2006 (2005: 28.4%). Turnover in this segment fell by US$20.4 million to US$220.2 million, a 8.5% drop compared with the same period last year. Despite an increase of 15.6%, approximately 99,000 tones in consolidated sales volume, results were offset by the falling raw poultry meat prices in China's domestic market. By and large, the cost of goods sold decreased by 4.0%, leading to an overall gross profit margin of the food integration business of 0.8%.

The food integration business's products include raw food and cooked food, among which raw food constituted 74.3% of the consolidated sales volume. In the first half of 2006, sales volume of raw food rose to 74,000 tones, an increase of 7,200 tones. This 10.9% rise is the initial result of the Group's intensive promotion of its food products under the brand name "Chia Tai". However, the selling price of poultry products entered into a slump under the taint of the bird flu pandemic looming across the industry. As a result, the gross profit of this segment was negatively affected. The Group believes selling prices of poultry products will rebound during the second half of the year due to shortages in the supply of poultry meat caused by a notable reduction of poultry growing activities during the first half of the year.

On the other hand, business growth in the cooked food sector has improved considerably. Consolidated sales volume of cooked food edged up 32.1%, or 6,200 tones, as compared with the same period last year. Approximately, 76.5% of the total cooked food products is for export, mainly to Japan. Compared to the same period last year, export volumes rose 39.6%, reaching a total of 19,000 tones.

The Group's cooked food products have been met with confidence by foreign importers. Since Japan introduced a "Positive List System for Agricultural Chemical Residues" across all imported poultry products, many other companies lost the exportation opportunity after failing to pass the requirements in breeding and rearing, as well as quarantine control.

The Group has adopted a completely closed management system for poultry breeding and a comprehensive quarantine control program; hence, the Group's product quality is unanimously affirmed by the Japanese importers. It is estimated the second half-year export business will continue to grow steadily.

Breeding and Rearing

Breeding and rearing accounted for 3.9% of the Group's consolidated turnover (2005: 4.2%). During the period under review, sales dropped by 13.3% to US$30.6 million as compared with the same period last year, resulting in a gross loss of US$6.7 million.

Breeding and Rearing (continued)

In the first half of 2006, the production volume of the Group's DOCs dropped 4.3% to 89.4 million birds, as compared with the same period last year. Not only did the slump in poultry meat market discourage farmers from their active involvement, the increase in corn prices also severely hampered such participation. Compared to the same period last year, the market price of DOCs dropped significantly. According to China Animal Husbandry Information Network, the market price of commercial DOCs on the whole fell in the range of RMB1.38 to RMB1.69 each. In other words, market price per bird averaged RMB1.55, which is equivalent to a drop of 32.0% compared to that of the same period last year. Overall, the Group believes the price for the DOC will definitely rebound especially after the sudden drop during the first six months of the year.

Apart from the poultry business, the Group has also expanded into swine rearing during the recent years. Currently, the Group's swine farms are mainly located in Hubei, Henan, Hunan, Guangxi and Yunnan. Production scale and method are still according to our standardized, advanced and scientific concepts. For the first half of the year, the swine breeding and rearing business constituted 26.8% of the overall breeding and rearing business, with production of 13,000 head of parent stock swine, 22,000 head of piglets and 64,000 head of swine. In the first half of 2006, the Group continues its effort in promoting "Standardized Farming of Swine Rearing", with an aim of enhancing the production volume of swine, as well as stimulating the sales of swine feed.

In addition, the Group continues to carry out its leadership role in the industry, actively promoting safety eggs and layers businesses. During the first half of 2006, activities from the layers business were satisfactory, with a production totaling 625,000 layers and 1,900 tones of eggs, accounting for 8.1% of the overall turnover of the business in breeding and rearing. At the present time, the layer business is still in the development stage.

Biochemical

The Group's biochemical products include Chlortetracycline ("CTC"), Di-Calcium Phosphate and L-Lysine monohydrochloride ("L-Lysine"). In the first half of 2006, turnover of this segment accounted for 4.9% of the Group's consolidated turnover (2005: 5.0%). During the period under review, turnover of the biochemical operation was US$38.9 million, representing a decrease of 9.0%, as compared with the same period last year. This drop could be accounted for by the reduction in sales volume of Di-Calcium Phosphate and L-Lysine products.

In contrast, the sales volume of CTC grew 9.7% from the same period last year while gross profit margin rose to 28.7% in the first half of 2006. Since CTC constituted 48% of the overall biochemical sales volume, overall gross profit margin edged up slightly to 21.1% from 19.1% of last year.

Shandong Chia Tai Ling Hua Bio-tech Co., Ltd., the Group's subsidiary, was scheduled to carry out its first phase production pilot run in June 2006. Upon completion, the annual production capacity of L-Lysine is expected to reach 100,000 tones.

Industrial Business

This business is operated by the Group's jointly controlled entities. Benefiting from the sustained growth in the China economy, the industrial business line reported a growth of 27.2% in turnover, from US$121.5 million to US$154.6 million, during the first half of this year compared with the same period last year. Overall, profit attributable to the equity holders from the industrial business amounted to US$0.7 million, which was US$0.1 million more than that of the same period last year.

Industrial Business (continued)

The development of western China will certainly spur demand for construction machinery. As the sole distributor of Caterpillar Inc.'s products there, the Group anticipates sound business performance for the second half of the year despite raw material prices already at a high level.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2006, the Group had total assets of US$922.5 million (31st December, 2005: US$925.4 million). Total debt and debt to equity ratio (debt to equity ratio is calculated by dividing the total borrowings by the equity including minority interests) were US$530.4 million and 505.8% respectively, as compared to US$525.4 million and 347.4% as at 31st December, 2005.

Most of the borrowings by the Group are in U.S. dollars and RMB, and the interest rates ranged from 4.6% to 9.8% per annum for the period.

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

All sales in the PRC are denominated in RMB, and export sales are denominated in foreign currencies. Foreign currencies are required for purchase of imported raw materials, parts and components, and the Group keeps necessary foreign currencies to meet its operational needs.

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$35.4 million as at 30th June, 2006 (31st December, 2005: US$66.0 million), a decrease of US$30.6 million.

CHARGES ON GROUP ASSETS

As at 30th June, 2006, out of the total borrowings of US$530.4 million (31st December, 2005: US$525.4 million) obtained by the Group, only US$169.1 million (31st December, 2005: US$143.3 million) were secured and accounted for 31.9% (31st December, 2005: 27.3%) of the total. Certain of the Group's property, plant and equipment and land lease prepayments located in the PRC with net book value of US$207.0 million (31st December, 2005: US$218.7 million) have been pledged as security for various short and long term bank loans.

CONTINGENT LIABILITIES

As at 30th June, 2006, the guarantees provided by the Group were US$19.4 million (31st December, 2005: US$7.4 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2006, the Group employed around 37,000 staff (including 10,000 staff from the jointly controlled entities and associates) in the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market rate while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as a share option scheme.