

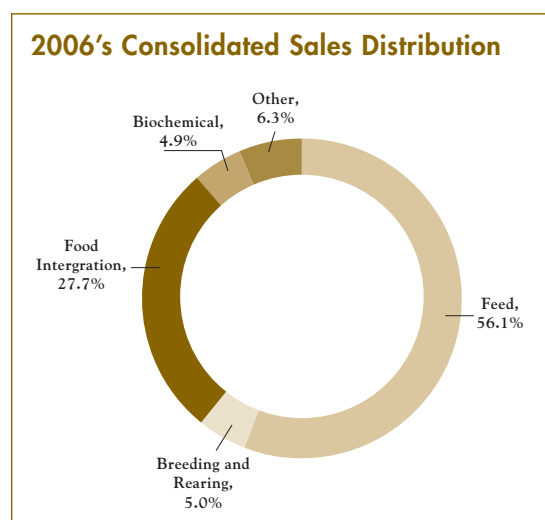
MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31st December, 2006, the Group recorded a loss attributable to equity holders of US\$49.7 million. Compared with 2005, the consolidated turnover decreased from US\$1,832.8 million to US\$1,691.5 million, representing a decrease of approximately 7.7%, while overall gross profit margin dropped slightly from 11.0% to 10.0%.

Agribusiness

The Group's agribusiness is organized into four business lines: feed, food integration, breeding and rearing, and biochemical products. Compared with 2005, the consolidated turnover of the Group's agribusiness fell 7.7% to US\$1,691.5 million. The Group's feed business, food integration business, and swine breeding and rearing business were affected by the falling prices for feed, poultry meat and hog meat in China. There was still the bird flu haze in China in the first eight months of 2006, along with the emergence of swine high fever in May, causing those prices to tumble. Coupled with the escalation of raw material costs in 2006, the Group's overall gross profit margin decreased slightly from 11.0% to 10.0%.



The Group foresaw that the consolidation and industrialization of China's breeding and feed industries would take some time before meeting international standards. CPP continues to implement the practice of massive-scale standardization and the modernization of its agribusinesses. Moreover, the Group has intensified efforts in developing its food businesses and promoting its food brand, "Chia Tai Food". Two new food research and development centers, one in Qinhuangdao and another in Qingdao, were built in 2006. The Group now owns a total of eight research and development centers for food in China.

Feed

In 2006, the feed business accounted for 56.1% of the Group's consolidated turnover (2005: 65.9%). Under the weakening breeding and rearing environment of poultry in China, the consolidated turnover of the feed business was reduced to US\$949.3 million, and the gross profit also fell to US\$120.6 million, reducing the gross profit margin from 14.7% to 12.7%.

The Group's feed products include poultry, swine, aqua and cow feed. Poultry and swine feed accounted for the majority, approximately 47.9% and 36.1% of the total, respectively. From the second half of 2005 to August 2006, both the swine and poultry breeding industries were under the threat of animal borne epidemic diseases; as the number of livestock raised by the breeders dropped, demand for feed in the market also fell. Even though market demand for feed rebounded rapidly after August, the average unit price for feed sold in the market in 2006 overall was lower than in 2005. In addition, corn, the main raw material used in feed production, rose in price to RMB1.36/kg, an increase of

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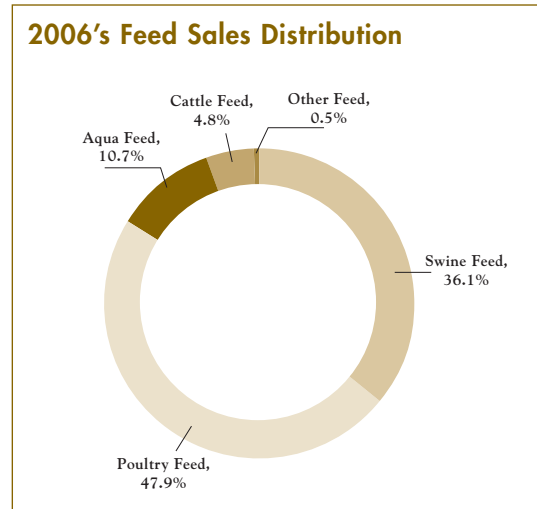
BUSINESS REVIEW (continued)

Agribusiness (continued)

Feed (continued)

5.8% as compared to last year. As a result of the falling sales price and rising production cost, the average gross profit margin of the Group's feed business fell.

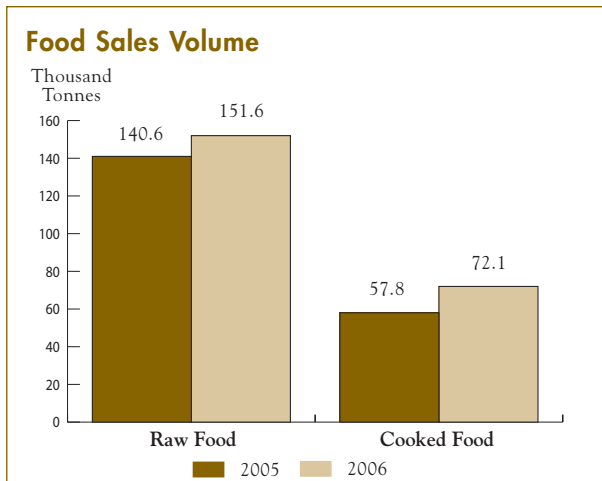
In 2006, CPP was continuing to expand into the aqua feed business. Turnover of aqua feed products to the Group's consolidated turnover of total feed products increased significantly and represented 10.7% of the segment, and production volume reached 240,800 tonnes. In order to meet the rising demand for aquatic products associated with the improved living standard of the Chinese people as well as to minimize the volatility due to poultry feed sales, the Group has invested approximately RMB100 million in the construction of aqua feed production facilities with a capacity of 576,300 tonnes.



Food Integration

The integrated food business is the second largest business of the Group. In year 2006, consolidated turnover of the integrated food business accounted for 27.7% (2005: 21.7%) of the consolidated turnover of the Group, amounting to US\$468.0 million. Consolidated sales volume of food products rose from 202,000 tonnes in 2005 to 228,000 tonnes, whereas gross profit dropped to US\$17.7 million.

During the year under review, the Group recorded an increase in consolidated sales volume of poultry food products. Gross profit margin for domestic sales, however, fell to 4.2% from the prior year due to the lower overall average selling prices of poultry food products and the rise in rearing cost associated with an increase in the raw material cost of feed.



As for the overseas sales situation, the Group's cooked food products are mainly exported to Japan. Since June 2006, all exported food going to Japan is required to conform to the standard of the 'Positive List System'. Despite this change, the Group's total food exportation quantities actually rose by 7,800 tonnes while gross profit margin hovered around 14.5%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Agribusiness (continued)

Food Integration (continued)

The Group's food products are classified into raw food and cooked food. Consolidated sales volume of raw food was 152,000 tonnes, an increase by 7.8% of 11,000 tonnes from last year. Consolidated sales volume of cooked food recorded a promising growth of 24.7% to 72,000 tonnes.

To accommodate the changing needs of the customers, two food research and development centers, one in Qinhuangdao and another in Qingdao, have been built by the Group over the past year. The Group currently has eight research and development centers in China for food. Four new types of safe, fresh and delicious food products have already been successfully introduced to the market in 2006.

Breeding and Rearing

Breeding and rearing business accounted for about 5.0% (2005: 2.4%) of the Group's consolidated turnover. During the year under review, consolidated turnover rose to US\$85.1 million while gross profit increased to US\$4.3 million.

Over the past year, the animal husbandry industries in some provinces of China were still under the influence of the bird flu, and poultry breeding and sales grew weaker. Fortunately, the Group's animal husbandry companies in the Guangxi and Yunnan regions were not affected, and their broilers' selling prices and sales volumes rose an average of 12% and 75%, respectively, generating an increase in the overall turnover of the Group's poultry business.

Due to the occurrence of swine high fever illness in the first half year of 2006 along with falling hog prices in the market, hog farmers had been discouraged from increasing the inventories of their livestock. However, with the China National Day and the Chinese Mid-Autumn Festival falling in the second half of the year, prices for hog products surged rapidly in the second half of 2006, especially with the relatively fewer hog supplies on the market. Average market prices for swine piglet and live hog in 2006 overall were RMB8.86/kg and RMB7.21/kg, a drop of 32.4% and 10.4%, respectively, compared to last year. The Group's swine rearing business was also affected.

Biochemical

The Group's biochemical products include Chlortetracycline ("CTC"), Di-Calcium Phosphate and L-Lysine monohydrochloride ("L-Lysine"). Turnover of this segment accounted for 4.9% of the Group's consolidated turnover (2005: 4.8%). Consolidated turnover for the biochemical business was US\$83.2 million, a decrease of 5.6% as compared to last year while gross profit margin rose slightly from 17.8% to 18.0%.

Sales of the Group's CTC showed a steady rise in 2006. Sales volume rose from 41,000 tonnes to 42,000 tonnes while gross profit climbed up to 26.7% from 24.8% in 2005. Pucheng Chia Tai Biochemistry Co., Ltd., produces primarily CTC and has a production capacity of up to 18,000 tonnes of Feed Grade CTC. Its products, besides being authorized by the

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BUSINESS REVIEW (continued)

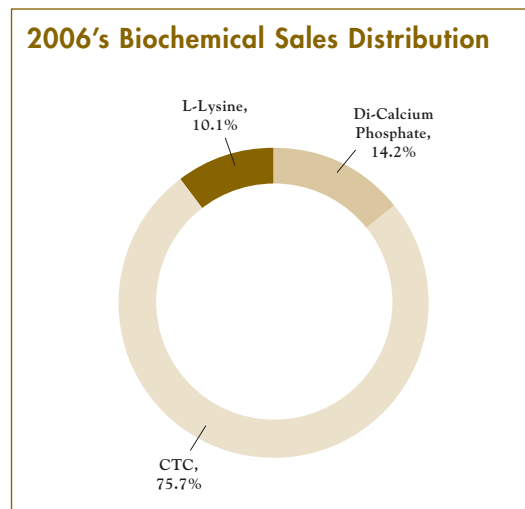
Agribusiness (continued)

Biochemical (continued)

Ministry of Agriculture of China, are also registered and approved by the American FDA, Ministry of Agriculture of England and other Southeast Asia countries; therefore, its products are ready for export to the U.S., Europe, South America and other Southeast Asia countries. In 2006, export volume of the Group's CTC increased to 30,000 tonnes from the 24,000 tonnes in 2005, which can be seen as a sign of confidence by customers abroad.

Regarding the Group's Di-Calcium Phosphate business, since the market entry of its substitute product, Phytic Acid, the price of Di-Calcium Phosphate has fallen as a result. Sales volume in 2006 fell by 14.5% to 49,000 tonnes while gross loss dropped to 19%.

The Group also produces L-Lysine, the majority of which is for the Group's internal use. By the middle of 2006, Shandong Chia Tai Ling Hua Bio-tech Co., Ltd. completed its trial production run with annual L-Lysine production of up to 20,000 tonnes at full capacity.



Industrial Business

The Group's industrial business involves the sale of motorcycles, automotive accessories and carburetors, and the distribution of the full range of Caterpillar products. Riding on the growth of Chinese economic development, the combined turnover of the industrial business was US\$302.0 million in 2006, an increase of US\$44.0 million, or 17.1% as compared with 2005.

Effective from 1st April, 2006, excise tax for low-exhaust motorcycles with 250cc or lower has been reduced to 3% from 10% by the Chinese government, benefiting the Group's Luoyang Northern Ek Chor Motorcycle Company Limited ("Northern Ek Chor") since it produces low-exhaust motorcycles. Though raw material prices of major metals (i.e. zinc, aluminum) for the production of motorcycles remained high in 2006 causing a rise in the production cost, the Group still registered a 15% growth in motorcycles sales and an 11% gross profit margin. In the 2006 event, China's Best 500 Machinery, co-organized by the China Machinery Enterprise Management Association, World Executive Magazine, World Brand Lab, Machinery Industry Economic & Management Research Institute and machine.icxo.com, Northern Ek Chor was ranked at 303. Also, expanding into new markets, "Dayang" motorcycle, produced by Northern Ek Chor, was exported to Turkey for the first time in 2006.

The Group's ECI Metro Investment Co., Ltd. is the sole agent of Caterpillar construction machinery products in western China. Stimulated by the infrastructure development projects there, sales and net profit of ECI Metro Investment Co., Ltd. recorded promising growth in 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PROSPECTS

Looking ahead to 2007, the Group will continue to develop new markets by expanding its sole agents' sales and distribution network in addition to improving its comprehensive after-sales service. In order to strengthen its leading market position in the PRC feed industry, the Group will invest in new fixed assets including aqua feed facilities and will further improve feed production quality control measures. In the breeding and rearing business, we will continue to advance our strict standardized production technologies to improve production efficiency. Moreover, the Group will continue to strengthen the reputation of its "Chia Tai Food" brand and expand its food businesses.

CHANGE OF ASSETS

For the year ended 31st December, 2006, the Group had total assets of US\$971.8 million, increasing 5.0% as compared with US\$925.4 million at the end of 2005.

LIQUIDITY AND FINANCIAL RESOURCES

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\$563.1 million and 554.7% respectively, as compared to US\$525.4 million and 347.4% as at 31st December, 2005.

Most of the loans borrowed by the Group are in U.S. dollars and RMB, and the interest rates ranged from 4.6% to 9.4% per annum.

The Group had not engaged in any derivative for hedging against interest or exchange rates.

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. The Directors consider the appreciation of RMB in the year has had insignificant impact on the Group's business.

CAPITAL STRUCTURE

The Group finances its working capital requirements through a combination of funds generated from operations, short term and long term bank loans and from the disposal of certain assets and investments. The Group had cash and cash equivalents of US\$55.1 million as at 31st December, 2006 (31st December, 2005: US\$66.0 million).

CHARGES ON GROUP ASSETS

As at 31st December, 2006, out of the total borrowings of US\$563.1 million (2005: US\$525.4 million) obtained by the Group, only US\$195.0 million (2005: US\$143.3 million) were secured and accounted for, which was 34.6% (2005: 27.3%) of the total. Certain of the Group's property, plant and equipment and land lease prepayments located in Mainland China with net book value of US\$205.6 million (2005: US\$218.7 million) have been pledged as security for various short and long term bank loans.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31st December, 2006, the guarantees provided by the Group were US\$9.4 million (31st December, 2005: US\$7.4 million).

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2006, the Group employed around 32,000 staff (including 9,900 staff from the jointly-controlled entities and associates) in the PRC and Hong Kong. A Remuneration Committee has been set up to review the remuneration policies and packages of directors and senior management. 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.