

Management Discussion and Analysis

Set out below is a breakdown of the Group's turnover, profit before tax by products for the six months period ended 30 June 2003 and 2002:

	<i>Six months period ended 30 June 2003 RMB'000</i>		<i>Six months period ended 30 June 2002 RMB'000</i>			<i>Share of total Change</i>
Turnover						
Frozen Pork	567,950	25.1%	734,182	30.5%	(22.6%)	
Fresh Pork	300,848	13.3%	113,736	4.7%	164.5%	
HTMP	745,730	32.9%	743,200	30.9%	0.3%	
LTMP	164,522	7.2%	109,537	4.6%	50.2%	
Pig's by products	431,980	19.1%	625,883	26.0%	(31.0%)	
Chicken	55,163	2.4%	78,731	3.3%	(29.9%)	
	2,266,193	100.0%	2,405,269	100.0%	(5.8%)	
Profit before tax						
Frozen Pork	49,784	17.4%	130,448	28.6%	(61.8%)	
Fresh Pork	59,826	20.9%	29,984	6.6%	99.5%	
HTMP	105,957	37.0%	157,762	34.6%	(32.8%)	
LTMP	37,295	13.0%	29,552	6.5%	26.2%	
Pig's by products	29,110	10.2%	96,898	21.2%	(70.0%)	
Chicken	4,325	1.5%	11,364	2.5%	(61.9%)	
	286,297	100.0%	456,008	100.0%	(37.2%)	

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Turnover

The Group's turnover decreased by 5.8% to RMB2.27 billion in the six months period ended 30 June 2003 ("1H 2003"), from RMB2.41 billion in the six months period ended 30 June 2002 ("1H 2002"). The decrease in turnover was due to the impact of the decrease in demand caused by the SARS epidemic as well as the decline in the utilisation rates of the plants that the Group operates. Despite the decline in demand for frozen pork and pigs by-products, sales of fresh pork and LTMP recorded increases of 164.5% and 50.2% respectively during 1H 2003, which cushioned the impact of the fall in overall turnover for the 1H 2003.

High Temperature Meat Products ("HTMP")

Sales of HTMP rose 0.3% to RMB745.7 million in 1H 2003 compared to 1H 2002. The increased sales reflected a higher demand for the product in the first quarter of 2003 ("1Q 2003"), despite the impact of the SARS epidemic on its demand in the second quarter of 2003 ("2Q 2003").

Fresh Pork and Low Temperature Meat Products ("LTMP")

Sales of Fresh Pork and LTMP grew by 164.5% and 50.2% to RMB300.8 million and RMB164.5 million respectively in 1H 2003 compared to 1H 2002. These two premium product segments continued to benefit from the rising affluence of the Chinese consumers and their preference for quality and fresher food products. The expanded capacities in Linyi and Daqing plants increased sales of Fresh Pork and LTMP.

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Frozen Pork, Frozen Chicken and Pig By-Products

Sales of Frozen Pork and Pig By-Products decreased by 22.6% and 31.0% respectively to RMB568.0 million and RMB432.0 million in 1H 2003 compared to 1H 2002. Sales of frozen chicken fell 29.9% to RMB55.2 million, demand for the frozen products and pigs by-products from commercial users such as restaurants and canned food manufacturers declined in 1H 2003 in reaction to the SARS epidemic, with less people dining out. The decline in demand for frozen pork and pig by-products is less acute based on a half yearly comparison than the Q-on-Q comparison.

Gross Profit

Gross profit decreased by 26.2% to RMB437.8 million in 1H 2003, from RMB593.6 million in 1H 2002.

Distribution costs increased by 8.3% from the previous year to RMB58.7 million. As a percentage to sales, distribution costs was about 2.6% to sales in 1H 2003, up marginally from 2.3% of sales in the same period of last year. Administration expenses rose slightly by 17.6% to RMB85.1million due mainly to an increase in staff costs due to the expansion of production in Linyi and Daqing plants. Depreciation expenses increased by approximately RMB20.2 million or 47.4% from the same period last year. Other operating expenses slightly decreased to RMB7 million in 1H 2003, from RMB7.3 million in 1H 2002.

Net Financial Income

Interest income increased by 42.0% to RMB5.7 million in 1H 2003, from RMB4.0 million in 1H 2002. This was attributed to the Group's improved cash balance of RMB1.09 billion as at 30 June 2003. Interest expense decreased by 17.5% to RMB6.4 million due to lower interest rate on the unchanged outstanding debt of RMB200 million as at 30 June 2003.

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Tax

The effective income tax rate of the Group for the 1H 2003 was approximately 15.4% compared with 13.9% in the 1H 2002.

In 1H 2003, profits contribution of Daqing Jinluo, Tongliao Jinluo, Xiangtan Jinluo and Meishan Jinluo to the Group, in aggregate, decreased to 46.2% resulting a higher overall effective tax rate for the Group.

Net Profit

As a result of these factors, the Group achieved profit after tax of RMB242.2 million in 1H 2003, which was a decrease of 38.3% from RMB392.6 million recorded in 1H 2002. This was equivalent to an earnings per share of RMB0.21, based on a weighted average share capital of 1,133.3 million shares.

Balance Sheet

The Group's fixed assets stood at RMB1.03 billion as at end of June 2003. Its cash position increased to RMB1.09 billion as a result of its strong operating cashflow. Shareholders' equity rose to RMB2,556.8 million from RMB2,529.9 million at end of December 2002. Group's net tangible asset increased to RMB2.26 per share at end of June 2003, from RMB2.23 per share at end of December 2002.

Net Cash Flow and Liquidity

The Group had a net cash inflow of RMB121.4 million in 2Q 2003 compared with RMB136.2 million in 1H 2002. The cash inflow was primarily due to the decrease in working capital.

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As at 30 June 2003, the Group had unsecured bank loan of RMB200.0 million (2002: RMB200.0 million) bearing interest ranging from 5% to 8% (2002: 5% to 8%) per annum and repayable within one year. Such borrowings were all denominated in Renminbi. As at 30 June 2003, the Group also did not use any financial instruments for hedging purposes (2002: Nil). As at 30 June 2003, the Group had cash and cash equivalents of RMB1.09 billion (2002: RMB528.6 million).

Employees

As at 30 June 2003, the total number of employees of the Group was approximately 9,500 (30 June 2002: approximately 6,500) with total staff costs amounting to approximately RMB40.3 million (30 June 2002: approximately RMB31.2 million). The remuneration of the employees of the Group includes salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees to be determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

In 1H 2003, the Group continued to provide its employees with opportunities to learn skills in relation to computer technologies and business administration and provide training on the latest developments in areas such as computer technologies, personal development, laws, regulations and economics.

Gearing Ratio

As at 30 June 2003, the gearing ratio of the Group was 7.8 per cent (30 June 2002: 11.0 per cent), which was computed by dividing the total amount of bank loans, by the equity of the Group as at 30 June 2003.

Contingent Liabilities

As at 30 June 2003, the Group had no material contingent liabilities (2002: Nil).