Management Discussion and Analysis

Review of Operations

Revenue

The Group's revenue for FY2003 decreased marginally, considering the impact of SARS, by 3.1% to RMB4.90 billion from RMB5.06 billion in FY2002. The small overall decrease in revenue was commendable especially since the second and third quarters were hit badly by the SARS epidemic, causing a considerable decline in the overall utilisation rates of the plants that the Group operates. Despite the overall decline in demand for Frozen Pork and Pig's By-Products, sales of Fresh Pork and LTMP recorded increases of 156.6% and 48.0% respectively in FY2003, which greatly aided in cushioning the impact of the fall in the overall turnover for FY2003.This was possible also because of the higher margins that they command over the other products.

HTMP

Sales of HTMP fell slightly by 5.6% to RMB1.56 billion in FY2003 compared to FY2002. The lower sales reflected a slowdown in demand for the product in FY2003 due mainly to SARS.

Fresh Pork and LTMP

Sales of Fresh Pork and LTMP grew tremendously by 156.6% and 48.0% to RMB638.37 million and RMB352.36 million respectively in FY2003 compared to FY2002. 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 also increased sales of Fresh Pork and LTMP.

Frozen Pork, Frozen Chicken and Pig's By-Products

Sales of Frozen Pork and Pig's By-Products decreased by 21.6% and 16.5% respectively to RMB1.21 billion and RMB1.04 billion respectively in FY2003 compared to FY2002. Sales of Frozen Chicken fell by 22.3% to RMB107.76 million. Demand for Frozen Pork and Pig's By-Products from commercial users such as restaurants and canned food manufacturers declined in FY2003 in reaction to the SARS epidemic, with less people dining out.

Gross Profit

Gross profit decreased by 23.3% to RMB943.74 million in FY2003, from RMB1.23 billion in FY2002.

Expenses

Selling and distribution costs increased by 13.6% from the previous year to RMB117.58 million in line with an increase in sales in the Daqing plant due to increased production and the commencement of production in Shangqiu and Xinglong plants. As a percentage to sales, selling and distribution costs was only about 2.4% to sales in FY2003, up marginally from 2.0% of sales in the same period of last year. Administrative expenses on the whole, inched up by 3.9% to RMB161.83 million due mainly to an increase in staff costs for the operations in Xinglong and Shangqiu plants. Depreciation expenses increased by approximately RMB33.24 million or 34.2% from the same period last year. Other operating expenses increased slightly to RMB13.84 million in FY2003, from RMB12.35 million in FY2002. This included, other than depreciation expenses, the research and development expenses of RMB9.78 million incurred for the full year.

Net Financial Income

Interest income increased by 10.0% to RMB12.26 million in FY2003, from RMB11.15 million in FY2002. The Group's cash balance decreased by 13.6% in FY2003, to RMB807.86 million as at 31 December 2003 from RMB935.30 million as at 31 December 2002 due to internal funding of expansions. Interest expenses decreased by 3.2% to RMB12.62 million due to lower interest rates on the unchanged outstanding debt of RMB200 million as at 31 December 2003.

Taxation

The effective income tax rate of the Group for FY2003 was approximately 15.1% compared with 14.0% in the FY2002.

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, the Group's operating subsidiaries Linyi Xincheng Jinluo Meat Products Co., Ltd. ("Linyi Xincheng"), Linyi Minsheng Food Development Co., Ltd. ("Linyi Minsheng"), Daqing Jinluo Meat Products Co., Ltd. ("Daqing Jinluo"), Tongliao Jinluo Food Co., Ltd. ("Tongliao Jinluo"), Meishan Jinluo Food Co., Ltd. ("Meishan Jinluo") and Qiqihaer Jinluo Meat Products Co., Ltd. ("Qiqihaer Jinluo") are entitled to be exempted from the PRC state and local corporate income tax for the first two profitable financial years of their operations and thereafter to a 50% relief from the state corporate income tax of the PRC for the following three financial years (''Tax Holiday''). Xiangtan Jinluo Food Co., Ltd. ("Xiangtan Jinluo") is also entitled to be exempted from the PRC state and local corporate income tax for the first two profitable financial years of their operations and thereafter to a 50% relief from the state corporate income tax of the PRC for the following six financial years. With effect from 1 January 2001, Linyi Xincheng was subjected to corporate income tax of 33% on its taxable profit upon expiry of the Tax Holiday on 31 December 2000. With effect from 1 January 2003, Linyi Minsheng was subjected to corporate income tax of 18% on its taxable profit upon expiry of the first two years' tax exemption of the Tax Holiday on 31 December 2002. Daqing Jinluo commenced its first year's tax exemption period in the financial year ended 31 December 2002. Tongliao Jinluo, Xiangtan Jinluo and Meishan Jinluo have commenced their first two year's tax exemption period from the financial year ended 31 December 2003.

The two years' tax exemption periods for Qiqihaer Jinluo has not yet commenced during the year as it did not generate any net assessable profits attributable to its operations in the PRC during the year.

In FY2003, profits contribution of Daqing Jinluo, Tongliao Jinluo, Xiangtan Jinluo, Meishan Jinluo to the Group, in aggregate, decreased to 45.7% resulting in a higher overall effective tax rate for the Group.

Net Profit

As a result of these factors, the Group achieved profit after tax of RMB552.06 million in FY2003, which is a decrease of 32.9% from RMB822.76 million recorded in FY2002. This was equivalent to an earnings per share of RMB0.49, based on a weighted average share capital of 1,133.3 million shares.

Balance Sheet

The Group's fixed assets stood at RMB1.37 billion as at end of December 2003. Its cash position however decreased to RMB807.86 million as a result of expansion in production capacities in the last quarter of FY2003. Shareholders' equity, despite this, rose to RMB2.79 billion as at end of December 2003 from RMB2.53 billion at end of December 2002. The Group's net tangible asset increased to RMB2.47 per share at end of December 2003, from RMB2.23 per share at end of December 2002.

Employees

As at 31 December 2003, the total number of employees of the Group was approximately 9,500 (2002 : 8,900) with total staff costs amounting to RMB75.6 million (2002: RMB58.5 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 Year 2003, the Group continued to provide its employees with opportunities to learn skills in relation to the 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 31 December 2003, the gearing ratio of the Group was 7.2 per cent. (2002 : 7.9 per cent.), which was computed by dividing the total amount of bank loans, by the equity of the Group as at 31 December 2003.

Contingent Liabilities

As at 31 December 2003, the Group had no material contingent liabilities (2002: Nil).

Risk Management

The Group's system of internal controls plays a key role in the identification and management of risk that are significant to the achievement of its business objectives. The Board believes that, in the absence of any evidence to the contrary the system of internal control maintained by management that has been in place throughout the financial year to date, is adequate to meet the needs of the Company in its current business environment.

The system of internal controls provides reasonable, but not absolute assurance that the Company will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board notes that no system of internal control can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities. The major risks that the Group faces are as follows:

Financial Risks

Details on the Group's management of financial risks are set out in Note 25 to the Financial Statements.

Operational Risks

Delivery disruptions that could lead to delayed or lost deliveries

While the management has operational procedures in place to minimise the likelihood of any delays or lost deliveries, there are forces outside of the Group's control, including weather conditions, political turmoil, social unrest and strikes which could impact the operations.

Illegal tampering of products

Notwithstanding areas that out of the Group's control, the Group's sales team is responsible for overseeing the dealership network and monitoring their progress. They will work with dealers to minimise illegal tampering of products.

Food contamination

The Group has achieved the HACCP and ISO 9002 certification for its Linyi plant, and is in the process of qualifying its other plants to the same quality standards. All plants within the Group are based on the same stringent quality control and product safety procedures as the Linyi plant so as to ensure the same high quality standards.

Counterfeit products

The Group's "Jinluo" brand is trademarked. However, if any counterfeit products are discovered, the management will take the necessary legal action in consultation with the relevant PRC authorities to stop the counterfeiters and protect its brand name.

Disruption of utility supply

The management of each plant in each region is expected to be in constant contact with suppliers of utilities on an ongoing basis to minimise the likelihood of any disruption to any given utility supply. In the event that such a disruption occurs, the Group is confident that its plant managers will ensure that supply is restored in the shortest time possible.

Market and Country Related Risks

Change in consumer preferences

The Group's sales team constantly monitors changes in consumer preferences by gathering feedback from consumers on a regular basis. A market trend analysis is subsequently communicated to management so that new products can be developed or existing products can be improved to meet the taste preferences of consumers in any given region.

Changes in PRC laws and regulations

The Group believes that the PRC legal system will continue to improve so as to ensure continued foreign investment into the country. In the meantime, the Group will deal with any legal issue in close consultation with the relevant legislative authorities and seek their advice to ensure the interests of the Group are protected.

Economic environment and political structure of the PRC

As the PRC undergoes economic, political and social change, the Group will have to adapt to changes as and when they happen. For example with the accession into WTO, there is a possible threat of increased foreign competition in the future, so the Group has been constantly maintaining its competitive edge by protecting its "Jinluo" brand, enhancing its products, managing its operational costs, increasing overall operational efficiency and capacity utilisation, and expanding its production bases and distribution channels, to gain market share in the PRC.

Exposure to environmental liabilities

The Group believes in social responsibility and contributing back to society. Therefore, the Group will ensure that its production facilities do not impact the environment in any significant manner and will implement the necessary controls to ensure this, in strict compliance with any new environmental standards or legislation which may evolve in the PRC.

Tax relief and changes in corporate tax rates

Currently, some of the Group's subsidiaries are foreign investment enterprises established in the PRC and are therefore entitled to an exemption of income tax for the first two profitable financial years of operation and a 50% relief from income tax for the following three financial years. Upon the expiry of these tax incentives, the Group may be liable for the prevailing corporate tax rate, which is currently 33%. The current tax preference for foreign investment enterprises may be subject to change or come under review. The Group may be adversely impacted by such changes or changes to the prevailing tax rate.

Prospects

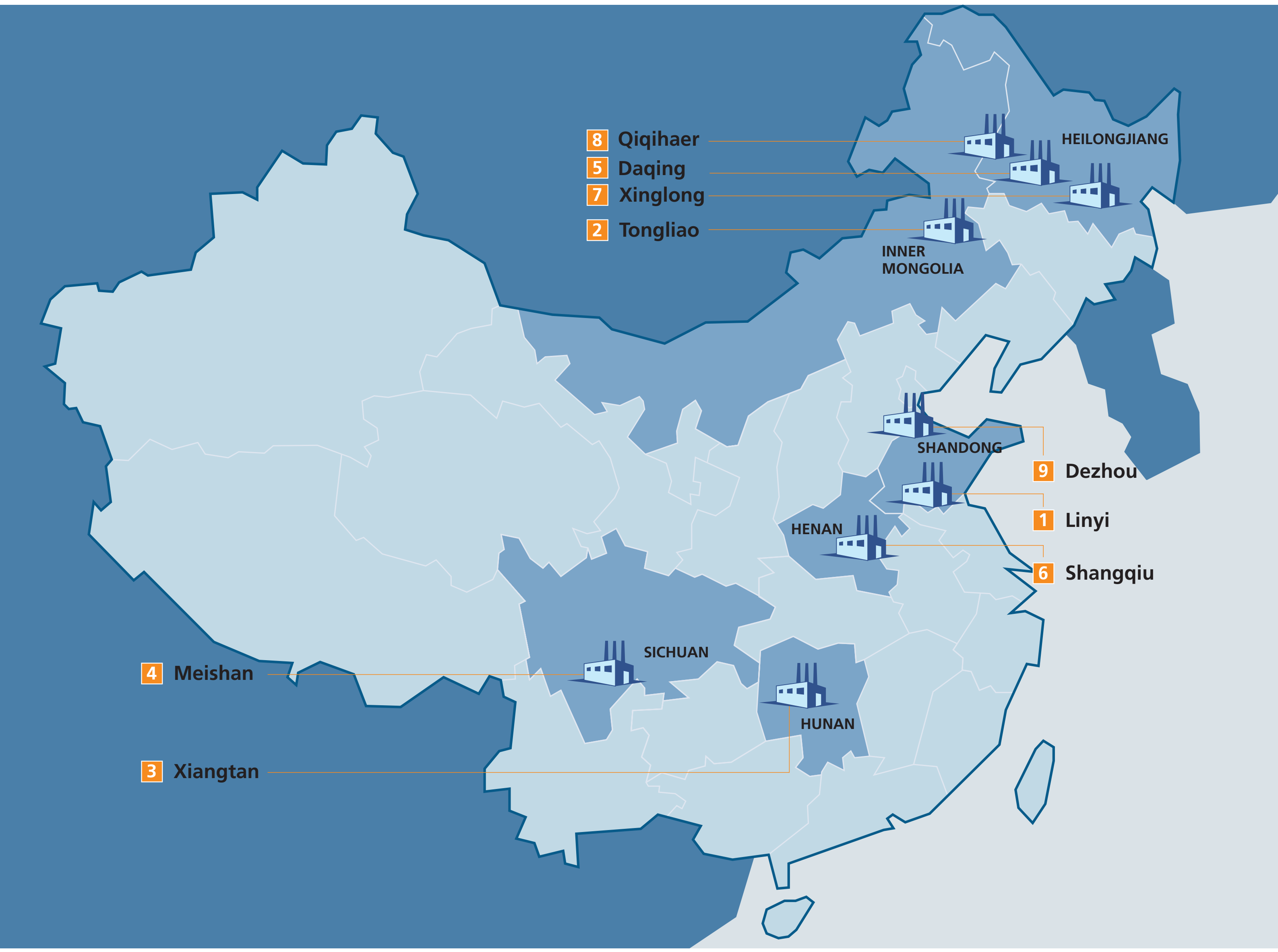
The Group's production plants in Shangqiu and Xinglong, which have an estimated annual capacity to process approximately 80,000 tonnes and 100,000 tonnes of pigs respectively, have commenced operations in August 2003. In addition, the acquisitions and expansions initiated in November 2003, will take off in the second or third quarter of 2004, which will see a further increase in the Group's annual pig slaughtering capacity to 1.44 million tonnes, surpassing the Group's initial target of achieving 1.10 million tonnes of pig slaughtering capacity by 2004.

Sales for all product segments have increased in fourth quarter FY2003 in comparison to the first nine months of the year, which was adversely affected by the outbreak of SARS. This is a positive sign of recovery as production picks up speed and sales are being generated as a result.

The management is of the view that the Group's main product segments hit by SARS, mainly the Frozen Pork and Pig's By-Products categories, have shown signs of pick-up in demand, and will continue to grow stronger going forward. Also, the strong growth in sales of Fresh Pork and LTMP bodes well for the Group. Management is optimistic about the overall performance for FY2004. The supply and process of these products as well as the utilisation rates of the Group's various plants, are recovering to pre-SARS levels and the Group remains very optimistic going forward. In the meantime, Management believes that the new plants, namely Shangqiu, Xinglong, Dezhou and Qiqihaer plants, as well as the expanded facilities in Linyi and Tongliao plants, will further increase capacity and contribute to the overall performance of the Group in FY2004.

As announced by the Company on 16 January 2004, the Group's operations have not been affected by the bird flu virus.

Management is positive about the prospects of the business and barring all unforeseen circumstances, Management expects to see growth in demand and turnover for 2004.


8 Qiqihaer
5 Daqing
7 Xinglong
2 Tongliao
HEILONGJIANG
INNER
MONGOLIA
SHANDONG
9 Dezhou
1 Linyi
HENAN
6 Shangqiu
SICHUAN
4 Meishan
HUNAN
3 Xiangtan

Production Bases	Slaughtering Capacity / Tonnage	Description
1 **Linyi, Shandong**	Pig - 290,000 p.a.	The Group's first production base and was commissioned in 1994
2 **Tongliao, Inner Mongolia**	Pig - 390,000 p.a.	Tongliao plant was commissioned in 1996. The additional plant with a pig slaughtering capacity of 250,000 tonnage is under construction and is scheduled to commence production in the third quarter 2004
3 **Xiangtan, Hunan**	Pig - 90,000 p.a.	Xiangtan plant was commissioned in 1997
4 **Meishan, Sichuan**	Pig - 80,000 p.a.	Meishan plant was commissioned in 1998
5 **Daqing, Heilongjiang**	Pig - 120,000 p.a.	Daqing plant was acquired in April 2002 and production commenced in July 2002
6 **Shangqiu, Henan**	Pig - 80,000 p.a.	The Group leased Shangqiu plant in January 2003 for a term of 5 years. Production commenced in August 2003
7 **Xinglong, Heilongjiang**	Pig - 100,000 p.a.	Xinglong plant was leased in January 2003 for an initial term of 20 years. Production commenced in August 2003
8 **Qiqihaer, Heilongjiang**	Pig - 40,000 p.a. Chicken - 90,000 p.a.	The Group acquired the Qiqihaer plant in November 2003. Production is scheduled to commence in the second quarter 2004
9 **Dezhou, Shandong**	Pig - 250,000 p.a.	Dezhou plant is newly established and is scheduled to commence production in mid 2004