

MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is a breakdown of the Group's revenue, profit before tax by products for the six months period ended 30 June 2004 and 2003:

	Six months period ended 30 June 2004 RMB'000	Share of total	Six months period ended 30 June 2003 RMB'000	Share of total	% Change
Revenue					
Frozen Pork	789,107	24.0%	567,950	25.1%	38.9%
Fresh Pork	450,738	13.7%	300,848	13.3%	49.8%
HTMP	939,912	28.6%	745,730	32.9%	26.0%
LTMP	244,395	7.4%	164,522	7.2%	48.5%
Pig By-Products	837,135	25.4%	431,980	19.1%	93.8%
Chicken	28,084	0.9%	55,163	2.4%	(49.1%)
	3,289,371	100.0%	2,266,193	100.0%	45.1%
Profit before tax					
Frozen Pork	72,020	16.6%	49,784	17.4%	44.7%
Fresh Pork	78,318	18.0%	59,826	20.9%	30.9%
HTMP	157,312	36.2%	105,957	37.0%	48.5%
LTMP	48,618	11.2%	37,295	13.0%	30.4%
Pig By-Products	77,168	17.8%	29,110	10.2%	165.1%
Chicken	862	0.2%	4,325	1.5%	(80.1%)
	434,298	100.0%	286,297	100.0%	51.7%



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REVENUE

The Group's revenue increased by 45.1% to RMB3.29 billion in the first half of 2004, from RMB2.27 billion in the first half of 2003. This increase was attributable to improved contribution from its existing plants as well as contribution from the newly established Dezhou and Qiqihaer plants. Moreover, the Group was hit by the outbreak of SARS in the first half of 2003, resulting in a lower revenue in that period.

High Temperature Meat Products (“HTMP”)

Sales of HTMP increased by 26.0%, from RMB745.73 million in 1H 2003 to RMB939.91 million in 1H 2004 and was mainly attributable to higher market demand for the Group's HTMP.

Fresh Pork and Low Temperature Meat Products (“LTMP”)

Sales of Fresh Pork and LTMP continue to grow and recorded an increase of 49.8% and 48.5%, from 1H 2003 to 1H 2004 respectively. Sales of Fresh Pork in 1H 2004 was RMB450.74 million as compared to RMB300.85 million in the previous corresponding period, whilst sales of LTMP was RMB244.40 million in 1H 2004 as compared to RMB164.52 million a year ago.

Frozen Pork, Frozen Chicken and Pig By-Products

Sales of Frozen Pork increased by 38.9% in 1H 2004 as compared to 1H 2003 which was attributable mainly to the higher market demand for Frozen Pork as well as the higher production output in 1H 2004. The sales of Frozen Chicken saw a decline of 49.1% due to a corresponding decline in production volume of Frozen Chicken. On the other hand, revenue contribution from Pig By-Products increased by 93.8% and was due to the strong market demand for these products.

GROSS PROFIT

Gross Profit reached RMB602.97 million in 1H 2004, an improvement of 37.7% as compared to RMB437.79 million in 1H 2003.

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EXPENSES

Distribution costs increased by 22.5% from RMB58.72 million in 1H 2003 to RMB71.95 million in 1H 2004. Administrative expenses rose marginally by 2.6% to RMB87.34 million as compared to RMB85.10 million in 1H 2003. Depreciation expenses increased by approximately RMB14.50 million or 23.1% for the same period. Other operating expenses went up by 39.6% to RMB9.83 million due to an increase in research and development costs from RMB2.54 million in 1H 2003 to RMB3.43 million in 1H 2004.

NET FINANCIAL INCOME

Interest income increased by 22.5% to RMB7.03 million in 1H 2004, from RMB5.74 million in 1H 2003 due to the relatively higher bank balances maintained in 1H 2004. Interest expense increased slightly 3.1% to RMB6.57 million due to higher interest rates on the unchanged outstanding debt of RMB200 million as at 30 June 2004.

TAX

The effective income tax rate of the Group for 1H 2004 was approximately 16.7% as compared to 15.4% in 1H 2003.

NET PROFIT

The Group grew by 49.3% in its profit after tax for 1H 2004, from RMB242.23 million in 1H 2003 to RMB361.60 million in 1H 2004. This was equivalent to an earnings per share of RMB0.32, as compared to RMB0.21 in the first half of 2003.

NET CASH FLOW AND LIQUIDITY

The Group had a net cash inflow of RMB182.63 million in the 1H of 2004 compared with a net cash inflow of RMB121.43 million in the 1H of 2003. The higher net cash inflow was primarily due to an increase in operating profits.



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As at 30 June 2004, the Group had unsecured bank loan of RMB200.00 million (30 June 2003: RMB200.00 million) bearing interest ranging from 5% to 8% (1H 2003: 5% to 8%) per annum and repayable within one year. Such borrowings were all denominated in Renminbi. As at 30 June 2004, the Group also did not use any financial instruments for hedging purposes (1H 2003: Nil). As at 30 June 2004, the Group had cash and cash equivalents of RMB989.10 million (30 June 2003: RMB1.09 billion).

There has been no material exposure to fluctuation in exchanges rates.

EMPLOYEES

As at 30 June 2004, the total number of employees of the Group was approximately 11,300 (30 June 2003: approximately 9,500) with total staff costs amounting to approximately RMB48.6 million (30 June 2003: approximately RMB40.3 million). The remuneration of the employees of the Group includes salaries, bonuses and other fringe benefits. The Group has different rate 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 the 1H of 2004, 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 2004, the gearing ratio of the Group was 6.5% (30 June 2003: 7.8%), which was computed by dividing the total amount of bank loans, by the equity of the Group as at 30 June 2004.

CONTINGENT LIABILITIES

As at 30 June 2004, the Group had no (30 June 2003: Nil) material contingent liabilities.