

Management Discussion and Analysis

Set out below is a breakdown of the Group's revenue, profit before tax and share of profit of associates and gain on deemed disposal of associates by products for the six months period ended 30 June 2005 and 2004:

	<i>Six months period ended 30 June 2005</i>		<i>Six months period ended 30 June 2004</i>		
	<i>RMB'000</i>	<i>Share of total</i>	<i>RMB'000</i>	<i>Share of total</i>	<i>% Change</i>
Revenue					
Frozen Pork	1,043,261	27.9%	789,107	24.0%	32.2%
Fresh Pork	729,890	19.5%	450,738	13.7%	61.9%
HTMP	925,633	24.7%	939,912	28.6%	-1.5%
LTMP	287,862	7.7%	244,395	7.4%	17.8%
Pig By-Products	724,937	19.3%	837,135	25.4%	-13.4%
Chicken	33,348	0.9%	28,084	0.9%	18.7%
	3,744,931	100.0%	3,289,371	100.0%	13.8%
Profit before tax and share of profits of associates and gain on deemed disposal of associates					
Frozen Pork	97,176	25.2%	72,020	16.6%	34.9%
Fresh Pork	83,140	21.6%	78,318	18.0%	6.2%
HTMP	98,164	25.4%	157,312	36.2%	-37.6%
LTMP	44,756	11.6%	48,618	11.2%	-7.9%
Pig By-Products	61,206	15.9%	77,168	17.8%	-20.7%
Chicken	1,220	0.3%	862	0.2%	41.5%
	385,662	100.0%	434,298	100.0%	-11.2%

Revenue

The Group's revenue increased by 13.8% to RMB3.75 billion in the first half of 2005, from RMB3.29 billion in the first half of 2004. This increase was volume driven and attributable to improved contribution from its production plants.

Management Discussion and Analysis

High Temperature Meat Products (“HTMP”)

Sales of HTMP decreased slightly by 1.5%, from RMB939.9 million in 1H 2004 to RMB925.6 million in 1H 2005. This was due mainly to the Group's shift in focus to increase its sales of higher margin products like Fresh Pork and LTMP.

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

Sales of Fresh Pork and LTMP continued to grow and recorded a remarkable increase of 61.9% and 17.8%, from 1H 2004 to 1H 2005 respectively. Sales of Fresh Pork in 1H 2005 was RMB729.9 million as compared to RMB450.7 million in the previous corresponding period, whilst sales of LTMP was RMB287.9 million in 1H 2005 as compared to RMB244.4 million a year ago.

Frozen Pork, Frozen Chicken and Pig By-Products

Sales of Frozen Pork increased by 32.2% in 1H 2005 as compared to 1H 2004 which was attributable mainly to higher market demand for Frozen Pork as well as higher production output in 1H 2005. On the other hand, revenue contribution from Pig By-Products saw a decline of 13.4% from RMB837.1 million in 1H 2004 to RMB724.9 million in 1H 2005.

Gross Profit

Gross Profit reached RMB485.8 million in 1H 2005, a decline of 19.4% as compared to RMB603.0 million in 1H 2004 and was due primarily to higher cost of live pigs as compared to 1H FY2004.

Management Discussion and Analysis

Expenses

Selling and distribution costs decreased by 22.4% from RMB72.0 million in 1H 2004 to RMB55.8 million in 1H 2005 due to lower transportation costs. The change in distribution method in which most bulk buyers are responsible for collection of goods had reduced transportation costs of the Group. Administrative expenses decreased by 48.4% to RMB45.0 million as compared to RMB87.3 million in 1H 2004 due to stringent cost controls and to lower depreciation charged to administrative expenses following an amount of approximately RMB22.0 million charged to cost of sales, on a review of assets allocated for production purposes. Other operating expenses dropped by 81.4% to RMB1.8 million due to a decrease in research and development costs and a provision for doubtful debts.

Share of profit of associates

Net profit of the Group's associate company, Pine Agritech Limited ("Pine") was RMB107.9 million in 1H FY2005. The Group's share of profit from associates was RMB48.9 million in 1H FY2005.

Gain on deemed disposal of associates

The listing of Pine on 12 May 2005 on the Mainboard of the Singapore Exchange Limited ("SGX-ST") resulted in a profit of RMB78.4 million, being the gain on gross dilution of the Group's shareholding from 49.0% to 36.75%.

Tax

The effective income tax rate of the Group for 1H 2005 was approximately 24.5% as compared to 16.7% in 1H 2004.

Net Profit

The Group's profit after tax for 1H 2004 grew by 15.7% from RMB361.6 million in 1H 2004 to RMB418.4 million in 1H 2005. This was equivalent to an earnings per share of RMB0.37, as compared to RMB0.32 in the first half of 2004.

Management Discussion and Analysis

Net Cash Flow and Liquidity

The Group had a net cash outflow of RMB488.75 million in 1H 2005 compared with a net cash inflow of RMB182.63 million in 1H 2004. The increase in inventories and payment of FY2004 final dividend had an impact on the Group's cash flow in 1H 2005.

As at 30 June 2005, the Group had unsecured bank loans of RMB180.0 million (2004: RMB200.0 million) bearing interest ranging from 5% to 7% (2004: 5% to 8%) per annum and repayable within one year. Such borrowings were all denominated in Renminbi. As at 30 June 2005, the Group also did not use any financial instruments for hedging purposes (2004: Nil). As at 30 June 2005, the Group had cash and cash equivalents of RMB688.2 million (2004: RMB989.1 million).

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

Employees

As at 30 June 2005, the total number of employees of the Group was approximately 18,717 (30 June 2004: 11,300) with total staff costs amounting to approximately 106.4 million (1H 2004: RMB48.6 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 2005, 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.

Management Discussion and Analysis

Gearing Ratio

As at 30 June 2005, the gearing ratio of the Group was 5.2 per cent (30 June 2004: 6.5 per cent), which was computed by dividing the total amount of bank loans, by the equity of the Group as at 30 June 2005.

Contingent Liabilities

As at 30 June 2005, the Group had no (2004: Nil) material contingent liabilities.