Management Discussion and Analysis

REVIEW OF OPERATIONS

The Group's revenue increased by 33.3% to RMB6.53 billion in 2004 from RMB4.90 billion in previous year. This increase was attributable to higher market demand for the Group's products as well as improved contribution from its production plants in 2004.

Revenue

High Temperature Meat Products

Sales of HTMP increased by 14.0%, from RMB1.56 billion in 2003 to RMB1.78 billion in 2004. This was due mainly to higher market demand for the Group's HTMP.

Fresh Pork and Low Temperature Meat Products

Sales of Fresh Pork and LTMP continued to grow, increasing respectively by 76.2% and 33.3% in 2004 as compared to 2003. Sales of Fresh Pork in 2004 was RMB1.12 billion as compared to RMB638.37 million in 2003, whilst sales of LTMP was RMB469.67 million in 2004 as compared to RMB352.36 million a year ago.

Frozen Pork, Frozen Chicken and Pig By Products

Sales of Frozen Pork saw a rise of 28.5% to RMB1.55 billion in 2004 as compared to RMB1.21 billion in 2003. Sale of Frozen Chicken slightly increased 8.3% to RMB116.72 million from RMB107.76 million in 2003. Revenue contribution from Pig By Products also saw an increase of 44.1% from RMB1.04 billion in 2003 to RMB1.49 billion in 2004. The increase was mainly due to the higher market demand for these products.

Gross Profit

Gross Profit reached RMB1.08 billion for the year ended 31 December 2004, an improvement of 14.1% as compared to RMB943.74 million in 2003.

Expenses

Distribution costs increased by 33.6% to RMB157.11 million in 2004 from RMB117.58 million in 2003. The increase in distribution cost was mainly attributable to stricter regulations on the maximum lead/weight capacity per truck of products transported thereby increasing the number of trips than was previously required.

No provision has been made for any production facilities for the year ended 31 December 2004.

Net Profit

The Group's net profit recorded an increase of 11.6% from RMB 552.06 million in 2003 to RMB616.24 million in 2004.

The Group's newly acquired associate, Glorious Faith, has contributed a profit of RMB21.8 million in the fourth quarter of 2004. Management expects further contribution from the associate to the profit of the Group in 2005.

Employees

As at 31 December 2004, the total number of employees of the Group was approximately 18,190 (2003: 9,500) with total staff costs amounting to RMB192 million (2003: RMB83 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 2004, 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 2004, the gearing ratio of the Group was 5.6 per cent. (2003 : 7.2 per cent.), which was computed by dividing the total amount of bank loans, by the equity of the Group as at 31 December 2004.

Contingent Liabilities

As at 31 December 2004, the Group had no material contingent liabilities (2003: Nil).

RISK MANAGEMENT

The Group's system of internal controls has 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 the 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.

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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 judgment 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 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's headquarter in Linyi, Shandong Province, was awarded the Hazard Analysis Critical Control Points System (HACCP) Certification by the China Quality Certification Centre for Import and Export in 2002. In addition, the Group's plants in Linyi, Tongliao, Meishan and Daqing obtained the ISO 9001:2000 certification and the rest of the plants are in the process of qualification. 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, 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 newly established production plants in Dezhou, Shandong Province and in Qiqihaer, Heilongjiang Province commenced its commercial production in June 2004 and in April 2004 respectively. These new plants have increased the pig and chicken slaughtering capacity of the Group and the Group expects these new plants to further contribute to the overall performance of the Group in 2005.

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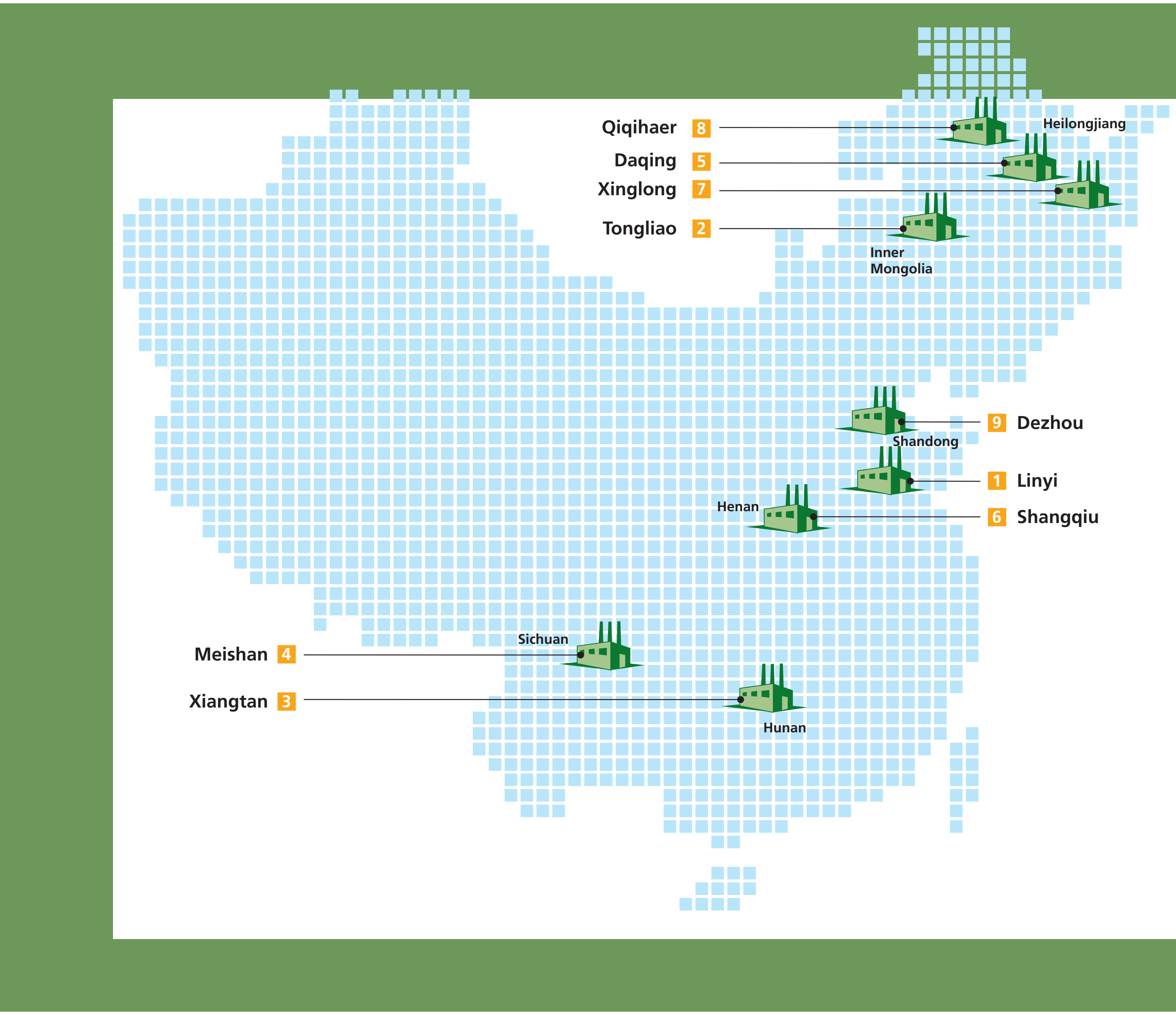

Production Bases	Slaughtering Capacity / Tonnage	Description
1 **Linyi, Shandong**	Pig - 290,000 p.a.	The Group's first production base and was in commission since 1994
2 **Tongliao, Inner Mongolia**	Pig - 390,000 p.a.	Tongliao plant was in commission since 1996.
3 **Xiangtan, Hunan**	Pig - 90,000 p.a.	Xiangtan plant was in commission since 1997
4 **Meishan, Sichuan**	Pig - 80,000 p.a.	Meishan plant was in commission since 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 commenced in April 2004
9 **Dezhou, Shandong**	Pig - 250,000 p.a.	Dezhou plant is newly established and production commenced in June 2004