

Notes to Condensed Financial Statements

Six months period ended 30 June 2005

1. Basis of preparation

The unaudited condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim financial reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Group has adopted the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the audited financial statements as at 31 December 2004.

2. Basis of consolidation

The consolidated financial statements for the six months period ended 30 June 2005 comprise the financial statements of the Company and all of its subsidiaries for that period, after the elimination of all material intercompany transactions. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. Acquisitions of subsidiaries are accounted for using the purchase method of accounting.

All significant intra-group transactions and balances are eliminated on consolidation.

3. Revenue and segment information

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after elimination of all significant intra-group transactions. The Group's revenue is principally derived in the People's Republic of China ("PRC").

The Group's operating businesses are organized and managed separately according to the nature of products, with each segment representing a strategic business segment that offers different products in the PRC market. The processed meat products segment manufactures and distributes processed meat products such as regular sausages and honey-baked ham. The fresh and frozen meat products segment carries out the business of pig slaughtering and the sale of fresh and frozen meat products.

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3. Revenue and segment information (Continued)

For the six months period ended 30 June 2005

	<i>Fresh and frozen meat products (Unaudited) RMB'000</i>	<i>Processed meat products (Unaudited) RMB'000</i>	<i>Consolidated (Unaudited) RMB'000</i>
Segment revenue	2,531,436	1,213,495	3,744,931
Segment profit	268,814	151,790	420,604
Unallocated corporate expenses			(37,540)
Other revenue			7,646
Profit from operating activities			390,710
Finance costs			(5,048)
Share of profits of associates			48,879
Gain on deemed disposals of associates			78,376
Profit before tax			512,917
Tax			(94,492)
Net profit attributable to shareholders			418,425

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3. Revenue and segment information (Continued)

For the six months period ended 30 June 2004

	Fresh and frozen meat products (Unaudited) RMB'000	Processed meat products (Unaudited) RMB'000	Consolidated (Unaudited) RMB'000
<u>Segment revenue</u>	<u>2,105,064</u>	<u>1,184,307</u>	<u>3,289,371</u>
<u>Segment profit</u>	<u>263,151</u>	<u>230,608</u>	493,759
Unallocated corporate expenses			(59,917)
<u>Other revenue</u>			<u>7,025</u>
Profit from operating activities			440,867
<u>Finance costs</u>			<u>(6,569)</u>
Profit before tax			434,298
<u>Tax</u>			<u>(72,700)</u>
Net profit attributable to shareholders			<u>361,598</u>

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4. Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	<i>Six months period ended 30 June 2005 (Unaudited) RMB'000</i>	Six months period ended 30 June 2004 (Unaudited) RMB'000
Cost of inventories sold	3,259,164	2,686,404
Depreciation	74,295	77,168
Research and development costs	1,832	3,430
Provision for doubtful debts	—	5,400
Interest income	<i>(2,053)</i>	<i>(7,025)</i>

5. Tax

	<i>Six months period ended 30 June 2005 (Unaudited) RMB'000</i>	Six months period ended 30 June 2004 (Unaudited) RMB'000
PRC	94,492	72,700

Hong Kong profit tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period ended 30 June 2005 (2004: Nil).

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5. Tax (Continued)

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the People's Republic of China ("PRC"), the Group's operating subsidiaries Linyi Xincheng, Linyi Minsheng, Tongliao Jinluo, Meishan Jinluo, Daqing Jinluo, Qiqihaer Jinluo, Dezhou Jinluo and Changchun Jinluo, wholly-owned subsidiaries of the Company, and Linyi Shansong Biological Products Company Limited ("Linyi Shansong"), an associate of the Group, established as wholly foreign-owned enterprises ("WOFEs") in the PRC, is entitled to an exemption 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"), another wholly-owned subsidiary of the Company established as a WOFE in the PRC, is entitled to an exemption from the PRC state and local corporate income tax for the first two profitable 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 (the "Tax Relief"). Upon expiry of the Tax Holiday and the Tax Relief, the usual PRC corporate income tax rate of 33%, comprising a state corporate income tax rate of 30% and a local corporate income tax rate of 3%, is applicable to them.

Upon expiry of the Tax Holiday in the financial year ended 31 December 2000, Linyi Xincheng is subject to an income tax rate of 33% on its assessable profit for the year (2004: 33%).

Upon expiry of two years' tax exemption periods in the financial year ended 31 December 2002, Linyi Minsheng is subject to the reduced tax rate of 18% of for the three financial years from 1 January 2003 to 31 December 2005.

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5. Tax (Continued)

Upon expiry of two years' tax exemption periods in the financial year ended 31 December 2003, Daqing Jinluo is subject to the reduced tax rate of 18% for the three financial years from 1 January 2004 to 31 December 2006.

The two years' tax exemption periods for Tongliao Jinluo, Meishan Jinluo and Xiangtan Jinluo commenced in the financial year ended 31 December 2003 under local jurisdiction and upon the expiry of two years' tax exemption periods in the financial year ended 31 December 2004, Tongliao Jinluo, Meishan Jinluo and Xiangtan Jinluo are subject to the reduced tax rate of 18% for the three financial years from 1 January 2005 to 31 December 2007.

The two years' tax exemption periods for Qiqihaer Jinluo commenced on 1 January 2005 under local jurisdiction.

The two years' tax exemption periods for Dezhou Jinluo and Linyi Shansong commenced in the financial year ended 31 December 2004 under local jurisdiction.

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

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

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6. Dividends

	Six months period ended 30 June 2005 (Unaudited) RMB'000	Six months period ended 30 June 2004 (Unaudited) RMB'000
Proposed interim dividends — RMB0.278 per share (1H 2004: RMB0.096 per share)	314,230	108,799

An interim dividend of RMB0.278 per ordinary share (1H 2004: RMB0.096 per ordinary share), amounting to approximately RMB314,230,000 (1H 2004: RMB108,799,000), has been declared by the Board, with the interim dividend payable on 13 September 2005 to shareholders on record as at 31 August 2005. Dividends are declared in RMB and will be converted into Singapore dollars or Hong Kong dollars before being paid to the shareholders (depending on where the shareholders' shares are traded). As such, this dividend has not been recognised as a liability as at 30 June 2005.

The amount of proposed interim dividend for the period is calculated based on 1,130,324,723 shares (1H 2004: 1,133,324,723 shares) in issue as at the date of approval of these financial statements.

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7. Earnings Per Share

	<i>Six months period ended 30 June 2005 (Unaudited)</i>	<i>Six months period ended 30 June 2004 (Unaudited)</i>
Basic	RMB0.37	RMB0.32
Diluted	N/A	N/A

Basic earnings per share is calculated based on the Group's net profit attributable to shareholders of approximately RMB418,425,000 (1H 2004: approximately RMB361,598,000) divided by weighted average number of 1,132,877,209 ordinary shares of HK\$0.50 each (1H 2004: 1,133,324,723 ordinary shares of HK\$0.5 each) in issue during the period.

Diluted earnings per share for the six months period ended 30 June 2005 and 2004 have not been calculated as no diluting events existed during these periods.

8. Additions to Fixed Assets

During the period, the Group acquired the fixed assets amounting to approximately RMB403,537,000 (year ended 31 December 2004: RMB477,146,000).

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9. Trade Debtors

The ages of trade debtors are analysed as follows:

	<i>30 June 2005 (Unaudited) RMB'000</i>	<i>31 December 2004 (Audited) RMB'000</i>
Current-30 days	73,935	51,465
31-60 days	20,528	20,621
61-90 days	1,362	3,178
Over 90 days	5,163	35,025
	<u>100,988</u>	<u>110,289</u>
Less: Provision for doubtful debts	<u>(20,946)</u>	<u>(20,946)</u>
	<u>80,042</u>	<u>89,343</u>

The Group normally allows credit terms to its trade customers ranging from 30 to 60 days (2004: 30 to 60 days).

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10. Trade Creditors

The ages of trade creditors are analysed as follows:

	<i>30 June 2005 (Unaudited) RMB'000</i>	<i>31 December 2004 (Audited) RMB'000</i>
Current-30 days	126,579	64,533
31-60 days	29,783	26,591
61-90 days	5,188	8,177
Over 90 days	732	16,939
	<u>162,282</u>	<u>116,240</u>

11. Interest-bearing bank loans

The bank loans are unsecured, bear interest ranging from 5% to 7% (31 December 2004: 5% to 8%) per annum and repayable within one year.

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12. Share Capital

	<i>30 June 2005 (Unaudited) RMB'000</i>	31 December 2004 (Audited) RMB'000
Authorised:		
4,000,000,000 (31 December 2004: 4,000,000,000) ordinary shares of HK\$0.50 each	<u>2,140,000</u>	<u>2,140,000</u>
Issued and fully paid:		
1,130,324,723 (31 December 2004: 1,133,324,723) ordinary shares of HK\$0.50 each	<u>601,753</u>	<u>603,343</u>

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13. Commitments

As at 30 June 2005, the Group had the following outstanding commitments:

	<i>30 June 2005 (Unaudited) RMB'000</i>	31 December 2004 (Audited) RMB'000
(a) Capital commitments:		
Contracted, but not provided for:		
Buildings	54,178	65,413
Plant and machinery	38,725	34,795
	<u>92,903</u>	100,208
Authorised, but not contracted for in respect of the acquisition of fixed assets	54,313	—
	<u>147,216</u>	100,208

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13. Commitments (Continued)

	<i>30 June 2005 (Unaudited)</i>	31 December 2004 (Audited)
(b) Operating lease commitments:		
Total future minimum lease payments under non-cancellable operating leases for land and buildings are as follows:		
Within one year	6,440	6,130
In the second to fifth years, inclusive	18,501	19,270
After five years	54,688	56,774
	<u>79,629</u>	<u>82,174</u>

The Group leases certain of its land and buildings under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from one to twenty years (31 December 2004: one to twenty years). In addition, the Group has operating lease commitments for a term of five years with rentals determined in relation to the number of pigs slaughtered. During the period, the Group recognised approximately RMB1.1 million (31 December 2004: RMB3.1 million) in respect of contingent rental expenses under that lease.

The Company did not have any significant commitments as at 30 June 2005 (31 December 2004: Nil).

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14. Related Party Transactions

(a) *Related parties*

Maleque Limited, the substantial shareholder of the Company, is owned by the directors of the Company — 65% by Mr. Ming Kam Sing, 25% by Mr. Zhou Lian Kui and 10% by Mr. Zhou Lian Liang. Maleque Limited is a company incorporated in the British Virgin Islands. Other than the foregoing and the subsidiaries and associates of the Company, there were no other principal related party relations where control over financial and operating policies of the subject entity exist as at 30 June 2005.

(b) *Related party transactions*

During the six months period ended 30 June 2005, the Group purchased raw materials of approximately RMB48,543,000 from and supplied electricity of approximately RMB1,005,000 to Linyi Shansong, an associate of the Group. The directors confirm that all of these transactions were carried out in the ordinary and usual course of business of the Group. The contract for the supply of electricity began on 1 June 2005 and charges were made with reference to the market price.

Except for the foregoing, the directors confirm that there were no other related party transactions during the period under review.