Management Discussion and Analysis

REVIEW OF OPERATIONS

Compared to 2004, the Group's revenue increased by 17.4% from RMB6.53 billion to RMB7.67 billion. This increase was attributable to improved contribution from its production plants.

Revenue

High Temperature Meat Products

Sales of HTMP increased by 14.4%, from RMB1.78 billion to RMB2.03 billion and was mainly attributable to higher market demand for the Group's HTMP.

Fresh Pork and Low Temperature Meat Products

Sales of Fresh Pork and LTMP continue to grow, increasing by 39.1% and 32.4%, respectively. Due to higher market demand, sales of Fresh Pork in 2005 was RMB1.56 billion as compared to RMB1.12 billion in 2004, whilst sales of LTMP was RMB621.9 million as compared to RMB469.7 million in 2004.

Frozen Pork, Frozen Chicken and Pig's By products

Sales of Frozen Pork increased by 21.3% to RMB1.88 billion from RMB1.55 billion whilst sale of Pig By products decreased slightly by 2.5% from RMB1.49 billion to RMB1.46 billion. The fall was due to higher market demand for Fresh Pork and LTMP.

Gross Profit

Gross profit in 2005 was RMB957.5 million, a decline of 11.1% from RMB1.08 billion in 2004.

The reduction in gross profit in 2005 was due partially to depreciation charges of approximately RMB34 million re-allocated to cost of sales and the adjustment in the selling price of products of RMB65 million to reflect self–collection by bulk buyers.

Expenses

Selling and distribution costs decreased by 23.4% to RMB120.3 million from RMB157.1 million due to the change in distribution method in which most bulk buyers are responsible for collection of goods. Administrative expenses were reduced to RMB95.7 million in 2005, due partly to stringent cost controls and partly to lower depreciation charged attributable to administrative expenses following an amount of approximately RMB34 million charged to cost of sales, on a review of assets allocated for production purposes. Other operating expenses fell sharply as a result of lower research and development expenditure and write back of allowance for irrecoverable trade debtors.

Share of profits of associates

Net profit of the Group's associate company, Pine Agritech Limited ("Pine") reached RMB234.6 million in 2005. The Group's share of profit from associates saw a contribution of RMB95.5 million in 2005.

Gain on deemed disposals of associates

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

Profit for the year

The Group's profit for the year increased by 19.6% to RMB736.8 million from RMB616.2 million.

Employees

As at 31 December 2005, the total number of employees of the Group was approximately 18,330 (2004: 18,190) with total staff costs amounting to RMB317.2 million (2004: RMB191.9 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 2005, the Group continued to provide its employees with opportunities to acquire skills in relation to computer technologies and business administration and provided training on the latest developments in computer technologies, personal development, laws, regulations and economics.

Gearing Ratio

As at 31 December 2005, the gearing ratio of the Group was 5.2 per cent (2004: 5.6 per cent.), which was computed by dividing the total amount of bank loans, by the equity of the Group as at 31 December 2005.

Contingent Liabilities

As at 31 December 2005, the Group had no material contingent liabilities (31 December 2004: 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 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 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 28 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 ISO 9002 certification as well as the Hazard Analysis Critical Control Points System ("HACCP") Certification for its Linyi plant. The Group's Tongliao, Meishan and Daqing plants have already been ISO9001 and HACCP certified. The Group is in the process of qualifying its other plants for the same quality standards. All plants within the Group are subject to 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

For 2006, Management will continue its focus on sales and marketing efforts, purchase integration and the expansion of production scale and markets. The Group will continue to expand geographically in the PRC and to develop higher value products to grow and improve its margins.

Management will continue to closely monitor livestock-related diseases and maintain its strict quality control and quarantine procedures to safeguard and protect its operations.

VOLUNTARY WITHDRAWAL OF LISTING ON THE MAIN BOARD OF THE STOCK

EXCHANGE OF HONG KONG LIMITED

As had been previously announced, the Company is in the process of making arrangements for a voluntary withdrawal of listing on the Main Board of The Stock Exchange of Hong Kong Limited.


Qiqihaer 8
Daqing 5
Xinglong 7
Tongliao 2
Jiutai 10
Heilongjiang
Inner Mongolia
Jilin
9 Dezhou
Shandong
1 Linyi
Henan
6 Shangqiu
Meishan 4
Xiangtan 3
Sichuan
Hunan

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 was in commission since June 2004
10 Jiutai, Jilin	Pig - 250,000 p.a. Chicken - 90,000 p.a.	Construction in progress. Commissioning expect in second half of 2006