

## REVIEW OF OPERATIONS

### GENERAL

Founded in 1994, People's Food Holdings Limited (the "Company" or "People's Food") and its subsidiaries (collectively the "Group") is one of the leading producers of fresh and frozen meat and processed meat products in the PRC. The Group currently operates nine production bases, respectively in Linyi and Dezhou of Shandong Province, Meishan of Sichuan Province, Xiangtan of Hunan Province, Tongliao of Inner Mongolia Autonomous Region, Daqing, Xinglong and Qiqihaer of Heilongjiang Province and Shangqiu of Henan Province.

The Group's new production plants in Dezhou, Shandong Province and in Qiqihaer, Heilongjiang Province have commenced its commercial production respectively in June and April 2004. The newly established Dezhou plant has an annual pig slaughtering capacity of approximately 250,000 tonnes and an annual fresh pork processing capacity of approximately 100,000 tonnes. The production plant in Qiqihaer has an annual capacity to slaughter approximately 90,000 tonnes of chicken and 40,000 tonnes of pigs.

The Group's meat products are distributed primarily in the PRC and marketed under the "Jinluo" brand name and trade mark.

### PROSPECTS

The Group's newly established production plants in Dezhou, Shandong Province and in Qiqihaer, Heilongjiang Province have increased the pig and chicken slaughtering capacity of the Group and the Management expects it to further contribute to the overall revenue for the Group in the second half of 2004.

The Management is pleased with the development of the expanded facilities in Tongliao and expects it to start contribution to the Group's overall revenue in FY2004. Management also expects higher utilisation rates in the Group's Shangqiu and Xinglong plant and will further contribute the overall revenue of the Group in the second half of FY2004.



## REVIEW OF OPERATIONS

On 20 July 2004, the Group entered into a conditional Subscription Agreement with Glorious Faith Corporation (“Glorious Faith”) and Glorious Faith’s ultimate beneficial owners who are independent third parties of the Group (collectively known as “the Warrantors”) to subscribe for 4,900 ordinary shares in the share capital of Glorious Faith (the “Subscription Shares”), representing 49.0% of the entire issued share capital of Glorious Faith on a fully diluted basis. The consideration payable is approximately US\$26.5 million payable in cash from its internal resources and was arrived at on arm’s length basis negotiations having regards to a price to earnings ratio of 7.5 times the Minimum Profit (being the combined net profit after extraordinary items and minority interests of Glorious Faith Group’s businesses and operations for the year ended 31 December 2003 which will not be less than RMB60.00 million, and a condition to Completion). Glorious Faith is an investment holding company that holds a 100% interest in Rainbow Palace Inc., an investment holding company whose principal asset is the entire equity interest of Linyi Shansong Biological Products Co. Ltd. (“LSBP”). The principal business activities of LSBP is in the manufacture, development and sales of soy oil, soy meal, soy oligosaccharides, soy protein isolates and related products in the PRC.

The Management believes that the Subscription represents the progressive realisation of the commitment by the Group to expand and strengthen the competitiveness of the Group. The Subscription allows the Group to secure a long term supply of soy protein isolates, which is used in the Group’s products, whilst at the same time, the Group will be one step closer to achieving its objective of becoming a leading food conglomerate in the PRC. Completion of this agreement is expected to take place on 30 September 2004.

Although a rise in raw material costs is expected, as currently evidenced in the PRC, Management would continue to closely monitor the situation.

**Ming Kam Sing**

*Chairman*

11 August 2004