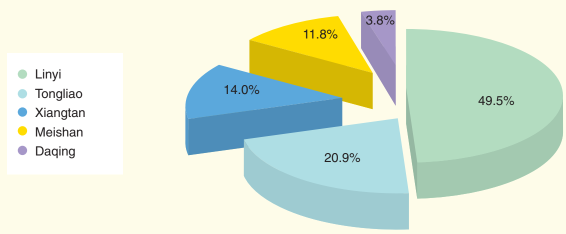
"... Capitalize on the anticipated consolidation of the meat processing industry ..."

REVIEW OF OPERATIONS

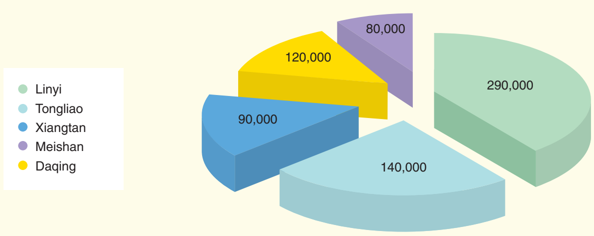
Turnover

Turnover by Geographical Region (2002)



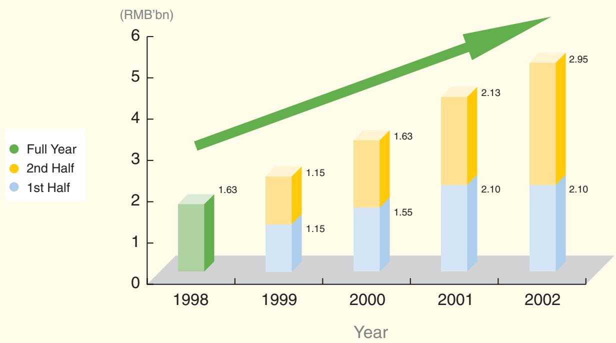
The Group's turnover increased 19.4% to RMB5.1 billion in 2002, from RMB4.2 billion in 2001. The increase in turnover was primarily volume driven. Strong branding and the continual strong market demand together with the commencement of the Group's Daqing plant in the second half of the year contributed to the strong growth. The Group's brand name "Jinluo" was voted as one of the top brands in China in 2002 for its HTMP by the China Brands Strategic Promotions Committee under the authorization of the General Administration of Quality Supervision, Inspection and Quarantine of the PRC.

Pig Processing Capacity by Plant (2002) (tonnes)

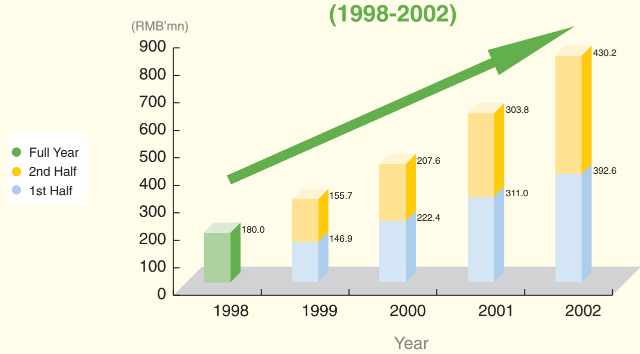


Overall annual pig processing capacity of the Group rose by 160,000 tonnes to 720,000 tonnes as at end of December 2002, from 560,000 tonnes as at the end of December 2001. The increase in pig processing capacity was the result of the acquisition of the fifth plant in Daqing, which was completed in June 2002, and as well as capacity expansion at the Linyi plant. The weighted average processing capacity had also increased by 27.0% to 630,000 tonnes in 2002 from 496,000 tonnes in the previous year, owing to this capacity expansion. The average utilisation rate reached 88.9% in 2002, compared with 92.3% last year, largely due to lower utilization at Daqing, which started production only in the second half of the year.

Turnover (1998-2002)



Profit After Tax
(1998-2002)



HTMP

Sales of HTMP rose 25.0% to RMB1,649.3 million. This product segment accounted for 32.6% of the Group's total turnover, an increase from 31.1% a year ago. The increased sales reflect the firm demand for HTMP as a staple food item, particularly in the less developed parts of the PRC where the penetration of supermarkets is limited.

Fresh Pork and LTMP

Sales of Fresh Pork and LTMP rose by 14.8% and 19.6% to RMB248.8 million and RMB238.1 million respectively in 2002. Fresh Pork and LTMP contributed to 4.9% and 4.7% of the Group's total turnover respectively. These two premium product segments continued to benefit from the rising affluence of the Chinese consumers and their changing preference for quality and fresh food products.

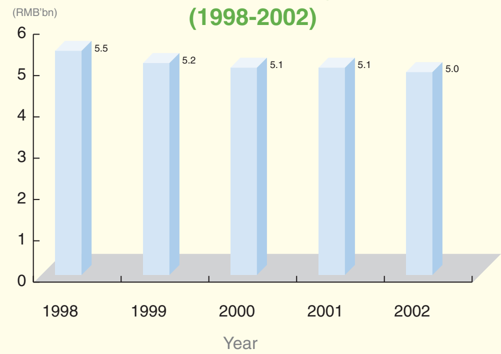
Frozen Pork, Frozen Chicken and Pig By-Products

Sales of Frozen Pork and Frozen Chicken respectively increased by 20.4% and 5.0% to RMB1,540.3 million and RMB138.8 million, contributing 30.5% and 2.7% of the Group's total turnover. Sales of Pig By-Products rose 13.9% to RMB1,241.4 million accounting for 24.6% of the Group's total turnover. Demand for these frozen products and pigs by-products was brought about by increased orders from commercial users such as restaurants and canned food manufacturers.

Gross Profit

Gross profit rose by RMB232 million to RMB1,230 million in 2002, translating into a 23.3% increase from the previous period. The lower cost of production contributed to higher gross profit margin, which improved to 24.3% from 23.6% a year ago.

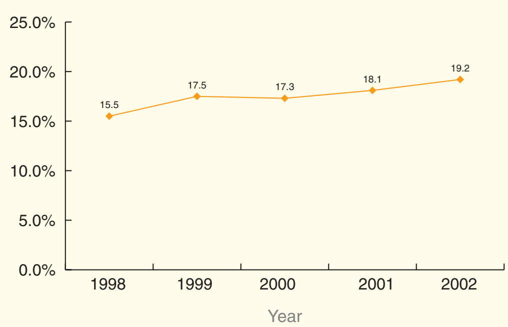
Cost of Live Pigs (1998-2002)



Expenses

Selling and distribution costs increased by approximately 8.3% from the previous year to RMB103.5 million. The increase was in line with the higher turnover that the Group achieved. As a percentage to sales, selling and distribution costs was around 2.05% to sales, down marginally from 2.25% of sales of last year. Administrative expenses increased by approximately 20.0% to RMB155.7 million due mainly to the increase in provision for depreciation. Depreciation expenses increased by approximately RMB17.5 million or 21.9% from the same period last year.

Operating Margins (1998-2002)



Net Financial Income

Interest income increased by 37% to RMB11.1 million, from RMB8.1 million a year ago. This was attributed to the Group's large cash balance of RMB935.3 million as at 31 December 2002. Interest expense decreased by 10% to RMB13.0 million due to lower interest rate charged on the unchanged outstanding debt of RMB200 million which is denominated in Renminbi and bear interest ranging from 5% to 8% (2001: 6% to 9%) per annum as at 31 December 2002.

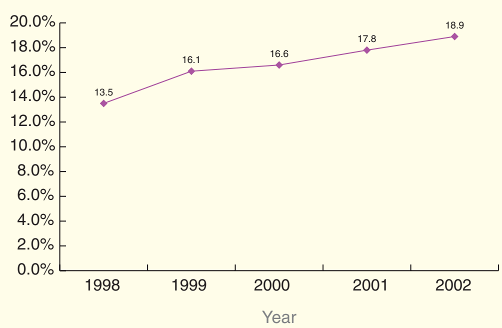
Tax

The effective income tax rate of the Group for 2002 was approximately 14.0% compared with 18.5% in 2001. In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, the Group's three operating subsidiaries Linyi Xincheng, Linyi Minsheng and Daqing Jinluo are entitled to Tax Holiday. With effect from 1 January 2001, Linyi Xincheng was subject to corporate income tax of 33% on its taxable profit upon expiry of the Tax Holiday on 31 December 2000. Linyi Minsheng and Daqing Jinluo commenced their first year's tax exemption period from the financial year ended 31 December 2001 and 31 December 2002 respectively. In 2002, profits contribution of Linyi Minsheng and Daqing Jinluo to the Group, in aggregate, increased from 42% in 2001 to 59% resulting a lower overall effective tax rate for the Group.

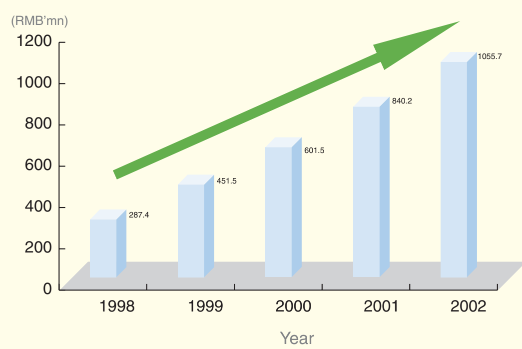
Net Profit

As a result of these factors, the Group achieved profit after tax of RMB822.8 million, an increase of 33.8% over the previous year and exceeded the Group's forecast of RMB811 million stated in the Hong Kong listing document dated 21 October 2002.

Profit Before Tax Margins (1998-2002)



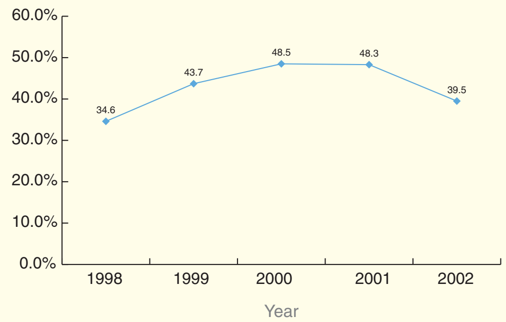
EBITDA (1998-2000)



Balance Sheet

The Group's fixed assets increased 65.2% to RMB1,021 million as at 31 December 2002 from RMB617.8 million a year ago. This was a result of its acquisition of the Daqing plant and capacity expansion in the Linyi plant. The Group's net cash increased by RMB485.1 million to RMB935.3 million as a result of its strong operating cashflow and new share issues. Shareholders' equity rose by 65% to RMB2,530.0 million from RMB1,533.4 million. The Group's net tangible asset increased to RMB2.23 per share, from RMB1.46 per share at 31 December 2001.

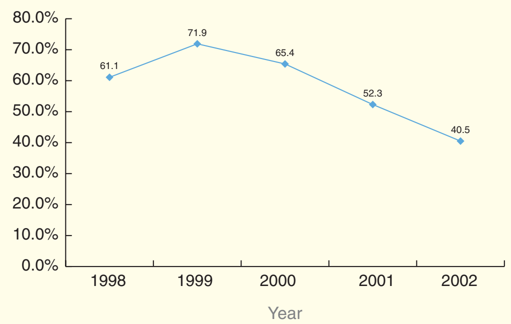
Return on Assets (1998-2002)



Net Cash Flow and Liquidity

The Group had a net cash inflow of RMB306.8 million in 2002 compared with RMB81.0 million a year ago. The higher cashflow was primarily a result of a better operating performance, and an increase in funds raised from the issue of new shares in July 2002. These cash inflows more than offset the capital expenditures incurred in its plant expansions.

Return on Equity (1998-2002)



As at 31 December 2002, the Group had unsecured bank loan of RMB200.0 million (2001: RMB200.0 million) bearing interest ranging from 5% to 8% (2001: 6% to 9%) per annum and repayable within one year. Such borrowings were all denominated in Renminbi. As at 31 December 2002, the Group also did not use any financial instruments for hedging purposes (2001: Nil). As at 31 December 2002, the Group had cash and cash equivalents of RMB935.3 million (2001: RMB450.2 million), of which 28.6 per cent., 71.2 per cent. and 0.2 per cent. (2001: 37.7 per cent., 61.8 per cent. and 0.5 per cent.) were denominated in Renminbi, US dollars and Hong Kong dollars, respectively.

Use of Proceeds

On 17 July 2002, People's Food Holdings Limited entered into a placement agreement in Singapore for the placement of 80,000,000 ordinary shares of HK$0.50 each in the capital of the Company to professional, institutional and individual investors at the price of S$1.22 per Share. The net proceeds from the placement, were approximately S$94.14 million (approximately RMB440 million) were intended to be used for increasing the Group's production capacity and working capital and for the Group's advertising and marketing.

As at end of December 2002, the Group had applied approximately S$26.0 million (approximately RMB120 million) to increase the production capacity of the Group. Unutilized proceeds have been placed in our PRC bank accounts and will be used for the abovementioned intended applications.

Employees

As at 31 December 2002, the total number of employees of the Group was approximately 8,900 (2001: approximately 6,000) with total staff costs amounting to approximately RMB58.5 million (2001: approximately RMB49.3 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 Year 2002, 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 2002, the gearing ratio of the Group was 7.9 per cent. (2001: 13.0 per cent.), which was computed by dividing the total amount of bank loans, by the equity of the Group as at 31 December 2002.

Contingent Liabilities

As at 31 December 2002, the Group had no (2001: Nil) material contingent liabilities.

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 judgement 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 the management has operational procedures in place to minimalise 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 HACCP and ISO 9002 certification for its Linyi plant, and is in the process of qualifying its other plants to the same quality standards. All plants within the Group are based on the same stringent quality control and product safety procedures as the Linyi plant so to ensure the same high quality standards.

Counterfeit products

The Group's "Jinluo" brand is trademarked. However, if any counterfeit products are discovered, the 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 minimalise 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 ascension into WTO, there is a possible threat of increased foreign competition in the future, so the Group has been constantly enhance its competitive edge by protecting its "Jinluo" brand, enhancing its products, managing its operational costs, increasing overall operational efficiency and capacity utilization, and expanding its production base 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 currently is 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 macro economic environment in the PRC remains positive in 2003. The PRC economy is expected to grow by 7–8% in 2003. Against this background, consumer purchasing power is expected to remain high and rising affluence will continue to fuel demand for premium quality meat products produced under more hygenic conditions. The Group, one of the leading producers of high quality meat products with its brandname "Jinluo", is expected to be a major beneficiary of the rising optimism at the macroeconomic level.

The Daqing plant commenced commercial production in July 2002, and enjoyed a utilization rate of 46% based on the weighted average processing capacity of 60,000 tonnes. The Group earnings will benefit from the full-year contribution to earnings from Daqing plant in 2003.

In January 2003, the Group signed two agreements to lease two production plants in the Henan Province, the PRC and in the Heilongjiang Province, the PRC respectively. The sixth production plant leased from Shangqiu Fuguan Food Enterprise Group Company Limited and the seventh production plant which will be rented from XingLong Forestry Bureau of the Heilongjiang Province are expected to increase the Group's annual pig processing capacity by approximately 80,000 tonnes and approximately 100,000 tonnes respectively. With the addition of these two plants, the Group's pig processing capacity will increase to approximately 900,000 tonnes in 2003. This is in line with our expansion plans, and we are on track to achieve our target pig processing capacity of 1,100,000 tonnes by 2004.

According to the Economist Intelligence Unit, the GDP in the PRC will grow at an average annual rate of approximately 7.8% for the period 2003 to 2006. Pork is still part of the staple diet in the PRC, accounting for approximately 68% of total meats consumed. According to the PRC Meat Association, total meat consumption in the PRC is forecasted to grow by approximately 12% between 2000 and 2005. The Board believes that with the Group's sound business strategy, the recognition of the "Jinluo" brand, and the Group's wide geographical spread of operations, the Group will be able to take advantage of the PRC's growing domestic economy and rising consumer affluence. The Group will also likely be able to capitalize on the anticipated consolidation of the meat processing industry in the coming years.

Based on the factors listed above and barring any unforeseen circumstances, the Board is optimistic about the Group's performance in 2003.