



MANAGEMENT DISCUSSION AND ANALYSIS

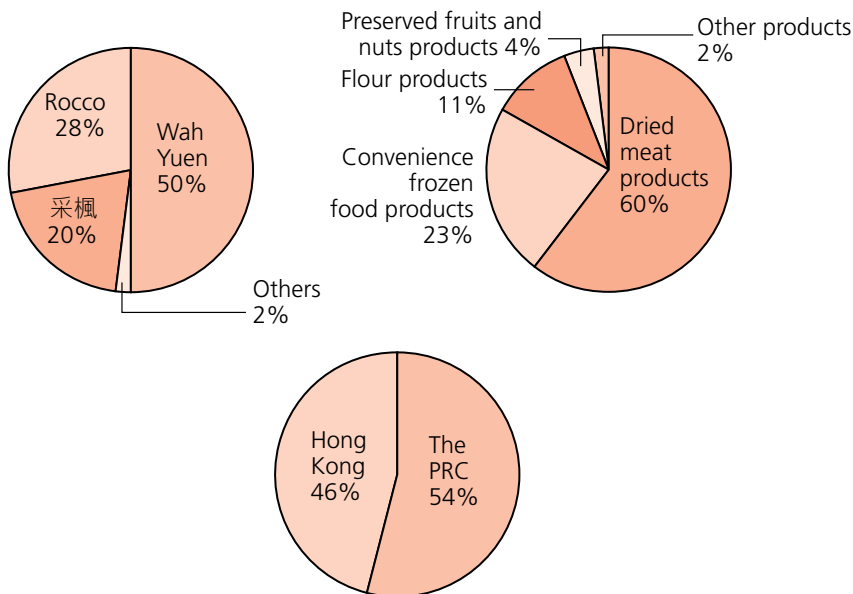
Listed on the Main Board of the SEHK in year 2003 is one of the major corporate milestone for the Group. During the period under review, the Group performed satisfactorily for its first interim results since listing.

The Group's turnover for the period ended 30 June 2003 amounted to HK\$88,592,000, representing a slightly growth of 2.3% as compared to HK\$86,629,000 for the corresponding period of last year. The Group's gross profit and profit attributable to shareholders for the period ended 30 June 2003 reached HK\$33,850,000 and HK\$6,750,000 respectively. Basic earnings per share was HK cents 4.8.

The Board of Directors have resolved that an interim dividend of HK cents 1.5 for the six months ended 30 June 2003, will be declared.

Operations Review

As a leading food manufacturer, distributor and retailer in the Hong Kong and PRC market, the Group is renowned for its quality snack food products with a unique Asian accent under the brand names of "Wah Yuen", "Rocco" and "采楓" and its convenience frozen foods that is distributed under the "Wah Yuen" brand name and by OEM in Hong Kong. The Group caters to almost everyone in the market, regardless of age, gender or lifestyle. It has produced and distributed over 200 product varieties under five major categories. Breakdown of turnover by brands, product categories and geographical areas are as follows:





Hong Kong Market

During the period under review, sales from the Hong Kong market amounted to HK\$40,572,000 which accounted for approximately 46% of the total turnover.

The Group has achieved such market popularity thanks to its comprehensive coverage spanning across over 2,300 major customer outlets in Hong Kong, including supermarkets and convenience store chains, healthcare store chains, schools, restaurants, cinemas, gas stations, hotels and other individual grocery stores.

The PRC Market

As the Group's largest market, sales from the PRC market amounted to HK\$48,020,000 which accounted for approximately 54% of the total turnover.

The Group's snack food products under all three of its brand names enjoy successful market penetration into over 250 cities in 30 provinces. As at 30 June 2003, the Group had branch offices in seven cities in the PRC, namely Beijing, Shenyang, Changchun, Dalian, Wuhan, Changsha and Nanning and a sales representative office in Guangzhou to co-ordinate and manage its sales and distribution channels in the PRC.

As at 30 June 2003, the Group has already opened seven specialty stores under joint ventures with a local distribution partner, so as to increase the awareness of its brandname as well as to further capture opportunities in retail sector.

Production Facilities

At present, the Group has three production facilities in both Hong Kong and PRC with total gross floor area of approximately 44,000 m². The facility in Hong Kong is principally engaged in manufacturing freshly cooked and ready-to-serve convenience frozen food products to Hong Kong market. The first Huadu Plant in Huadu District, Guangzhou, Guangdong Province, the PRC has five production lines that manufacture preserved meats, flour, preserved fruits and nuts, seasoning and other products at close to full production capacity. The new Second Huadu Plant established in 2001 with a total of four production lines. The production lines were installed to serve the purpose of producing preserved meats, flour and convenience frozen food products.



Future Prospects

In the coming future, the Group will continue to consolidate its leading market position in the packaged food industry by maintaining an amicable relationship with major distributors and retail chains and focus on launching new products, particularly in convenience frozen food.

For the PRC market, due to the growing demand on premium foods, the Group aims to introduce more new products to cater to the changing food culture in the PRC, as well as developing and executing comprehensive sales and marketing strategies to promote "Wah Yuen", "Rocco" and "采楓" in the PRC market. In addition, the Group will introduce its convenience frozen food products in the second half of 2003. It will also set up more specialty stores for the PRC market to embellish its brand recognition and to capture more market shares by strengthening its sales and marketing capabilities. As at the latest practicable date, the Group has already opened 21 specialty stores in Guangzhou and targeted to open over 50 specialty stores at the end of 2003.

Other than manufacturing and distributing its products in Hong Kong and the PRC, the Group is also developing the sales and distribution network in the overseas market, with its first market being Japan. The Group is under negotiation with several Japanese distributors to launch and export a series of products in Japan. Under the leadership of the highly experienced management team, the Group looks forward to solidifying its business in Hong Kong and the PRC, and creating marketing strategies to further its market expansion into Japan and other consumer markets with food lovers from around the world.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 June 2003, the Group had current assets of approximately HK\$220,293,000. Current assets comprised cash and bank balances of HK\$46,339,000, trade and other receivables of HK\$114,854,000, inventories of HK\$44,685,000 and pledged bank deposits of HK\$12,268,000. Current liabilities comprised bank borrowings of HK\$100,852,000, trade and other payables of HK\$43,124,000 obligations under finance leases of HK\$5,866,000 and taxation of HK\$2,323,000.