BUSINESS REVIEW

The global business environment in the first six months ended 30 September 2001 was both challenging and rewarding. In spite of the challenges the Group enjoyed a 29.6% increase in turnover to HK$1,435 million. Profit attributable to shareholders was HK$37 million, an increase of 22.9% compared to corresponding period in 2000.

Despite the weakening Japanese, US and EU economies, the Group has benefited from the steady economic growth in the PRC that resulted in increased demand for frozen seafood products, especially the higher value seafood variety. Overall, the Group has faired well and the interim results are encouraging.

During the period under review the Group focused on the distribution and sale of the frozen seafood products in which it has comparative advantages in procurement, transportation, processing efficiencies and logistic services. There was a focus on higher return markets, such as the PRC, paralleled with a reduction in exposure to markets with weakening economies. Vegetable products that require labour intensive farming and labour intensive processing was also a key focus with production increasing through sub-contracted farming and processing.

Sales by Product Category

Sales for frozen fish remained the largest portion of the Group's sales mix. For the period under review it achieved a 35% increase in sales to HK$847 million, representing 59% of the Group's total turnover. Processed fish fillets and portions, showed over a 23% increase totaling HK$563 million and represents 39% of the Group's total turnover. Vegetable products made a significant growth in this period compared to the same period last year though this category still remains a very small percentage of the Group's total turnover.

Sales by Geographical Market

Geographically the PRC remains the dominant market and during the period under review sales increased a significant 47% to HK$705 million. Sales to the PRC now totals 49% of the Group's turnover. This period's increase is attributed to the increase in demand for higher value frozen seafood products.

Sales to Western Europe continued to increase by 89% compared to the same period last year. Sales now total HK$419 million, representing 29% of turnover, and making Western Europe the second largest market for the Group. Increase in sales in this market is attributed to the successful introduction of new fish species and new varieties of fish fillets and portions and the provision of better logistics services to its customers under the various distribution arrangements, including the "Just-In-Time" programme. Owing to the economic downturn, sales to North America and Japan fared worse with a reduction of 15% and 53% in sales revenue respectively compared to the same period last year.

Notables

Taking advantage of the Group's financial strength and lower interest costs, the Group, during the period, strategically increased its inventory holding and short-term bank loan for the following reasons:

- continuous increase in the PRC's demand for higher value frozen seafood products
- the Group's successful introduction of new fish species and new varieties of fish fillets and portions
- provision of better logistic services to its customers under the various distribution arrangements
- built-up of larger raw material inventory to ensure uninterrupted processing of fish fillets and portions due to the possible late start of Alaskan pollock fishing season by one month to February 2002

Recent Development

The Company has entered in to a conditional contract with its subsidiary Pacific Andes (Holdings) Limited ("PAH") to acquire certain residential properties occupied by the PAH as staff quarters and investment properties at a total consideration of HK$47.89 million based on the current market valuation. The purpose of the acquisition is to provide more equity funding for PAH to further expand its trade with the PRC following the PRC's accession to WTO. The Company owns 62.87% issued share capital of PAH, a company which is listed on the main board of the Singapore Exchange Securities Trading Ltd.

Looking Ahead

There will be some beneficial changes in conducting business with China following its accession to the WTO. Firstly, China has said it will reduce its tariffs on the import of fish from a current average of 25.3% to an aimed for average of 10.6% by 1 January 2005. At the same time, China has agreed to apply all taxes and tariffs uniformly to both domestic and foreign business.

Furthermore, China, which generally restricts foreign companies from distributing imported products, will loosen its restrictions thereby allowing a greater free-flow of goods and services. These changes will be phased in over a three-year period for almost all products, including fish.

The Group will continue to maintain its flexibility in distribution to take account of fluctuations in demand as different economies experience economic swings. Further exploration will be made to develop new species for the PRC market and new value added products will be evolved.