

BUSINESS REVIEW AND PROSPECTS

For the six months ended 30 September 2002, the Group's turnover was HK\$564,570,000 (2001: HK\$570,998,000) and the net profit attributable to shareholders increased by 4.5% to HK\$35,180,000 (2001: HK\$33,670,000).

During the period, although the economy of Hong Kong continued to be weak, unemployment rate was persistently high coupled with sluggish spending sentiment and severe deflation, the Group leveraged on its extensive knowledge and experience in food business and further consolidated its leading position in the Hong Kong market. In the meantime, the Group has also focused on developing the Mainland China market and recorded a significant increase in sales for its Mainland China operation during the period. The satisfactory growth in sales in the Mainland China market was attributable to the Group's dedicated efforts in the past few years in developing this market. This, together with the increasingly popularity of the well-received brand name of Four Seas, the high quality food products produced by the Group's local manufacturing facilities and the continuous rising of disposable income of people in Mainland China, has also attributed to the increase in revenue during the period. The Group has capitalised on its existing strengths in the Mainland China market to explore new opportunities there.

Among the business segments of the Group, food product distribution continued to be the core business. During the period under review, the food product distribution business performed satisfactorily. With thirty-years of experience in food product distribution, the Group currently distributes a comprehensive range of superior quality food products, comprising mainly of very famous brand products from a vast network of international food manufacturers. All of these food products are well-received by the customers and maintain leading positions in their respective markets. Moreover, through the established snack food specialty chain stores, "Okashi Land", the Group has successfully developed an effective channel to introduce new and trendy Japanese snack food products to the customers.

The Group now owns three manufacturing plants in Hong Kong and thirteen in Mainland China. It provides the Group with a unique position to manufacture a broad spectrum of products including seaweed, high quality candies, snacks and confectioneries, instant noodles, ice-cream, beverages, ham and sausages, biscuits, cakes and bread. All the manufacturing plants performed satisfactorily during the period. Under the management of a team of dedicated and competent management, the thirteen manufacturing plants in Mainland China have been producing high quality and popular food products. In order to boost sales, the Group conducted several successful marketing and promotion activities in major

cities. As such, both turnover and profit of these manufacturing plants achieved satisfactory growth. Among the products produced by these thirteen manufacturing plants, “Four Seas Seaweed” produced by Nico Four Seas (Shantou) Company Limited continues to grow strongly. “Four Seas Milk Candy” produced by Kanro Four Seas (Shantou) Company Limited also gained satisfactory responses in the Mainland China and Hong Kong markets due to its superior quality and extensive range of flavors. “Four Seas” brand instant noodles produced by Li Fook (Qingdao) Foods Co., Ltd., which the Group acquired last year, recorded a promising growth in sales during the period. Among the range of Four Seas Instant Noodles, sales of “Four Seas Seaweed Instant Noodle” was the most encouraging. Benefiting from the uniqueness of its kind in the instant noodle market and the high quality seaweed directly produced by the Group’s seaweed factory, “Four Seas Seaweed Instant Noodle” is well received by the customers. The sales of other items, such as “Meiji Ice-cream” products produced by Guangdong M&F-Yantang Dairy Products Company Limited and “Pokka Four Seas” drinks produced by Pokka Four Seas (Suzhou) Food Company Limited also recorded satisfactory growth.

The award-winning Calbee factory located in Tseung Kwan O was established two years ago jointly by the Group and Calbee Foods Co., Ltd., the largest snack manufacturer in Japan. The products of the Calbee factory include Potato Chips, Grilled Corn Sticks, Prawn Crackers and a series of Calbee food products which are well received by the customers and have always been the market leader of their kind and have brought encouraging return to the Group. Followed by high appreciation from the industry for the superior quality of Calbee products, the Calbee factory was awarded by the Hong Kong Productivity Council with the “2002 HKPC Productivity Award” and by the Occupational Safety and Health Council with a bronze award of “Good House Keeping Plan” as recognitions for its excellence in productivity enhancement and occupational safety respectively. In order to cope with the fast-growing demand of Calbee products in Mainland China, the Group has started to build a factory in Shantou of the Guangdong Province which is expected to commence production by early 2003.

The ham factories located in Tuen Mun and Shenzhen produce high quality “Maid” brand ham and sausage products. The “Maid” brand was awarded the “Year 2001 Hong Kong Top Ten Brandnames Awards”. During this period, the demand for “Maid” brand ham and sausage products continued to increase steadily and has captured additional market share in both Mainland China and Hong Kong. While “Maid” brand ham and sausage products continue to maintain its top position in Hong Kong, the Board intends to deploy more resources to exploit the vast opportunities in the Mainland China market.

The Group has been active in seeking investment opportunities to expand its production base in Mainland China. During the period, the Group further increased its equity interest in a manufacturing plant in Mainland China by 51%, which specializes in producing high quality candies. This gives full flexibility to the Group to determine its future development plan.

Four Seas brand is well-known by the customers in the Mainland China and Hong Kong markets. During the period, Four Seas brand was awarded with the “Superbrands Hong Kong 2002” and the “Golden Asia Award for Excellence”. By means of launching large-scale marketing campaigns in Mainland China and Hong Kong, Four Seas brand products further enhanced their popularity. The Group has devoted significant resources to expand the variety of “Four Seas” brand products. The recently launched “Four Seas Seaweed Instant Noodle” and “Four Seas Jintan Capsule Gummy” have been well-accepted by the customers and produced encouraging results which the Board believes they will soon become another successful series among Four Seas brand products.

The Pokka Café chain located in Mainland China, Hong Kong and Macau has established good reputation in these markets. Even under the sluggish economic environment, the Pokka Café chain continued to contribute profit to the Group during the period.

Looking forward, the Group will continue to develop actively other markets for its businesses of trading of food materials, food manufacturing, food product distribution, coffee shop and restaurant chain businesses. Following the fast growing economy and the improvement of personal disposable income level in Mainland China, the demand for high quality food products has been increasing and has led to enormous business opportunities. Capitalising on the Group's well-established production base of thirteen factories, the high quality and well-known food products and the Group's over thirty years of knowledge and experience in marketing food products, the Group will use its best endeavour to maintain its leading position in the Hong Kong market and to further explore the Mainland China food market. Meanwhile, the Group will host the “Four Seas International Food Expo” to promote ranges of famous branded products around the world which will be held at the Hong Kong International Trade and Exhibition Centre in March 2003. The Board believes that the Group is a pioneer food enterprise in Hong Kong to conduct singly such large-scale food expo in Hong Kong. Through this event, the Group will be benefited from generating additional revenue and further enhancing its reputation in Hong Kong and internationally. The management is optimistic about the prospect of the Group and has full confidence in the Group's future business development.