

BUSINESS REVIEW AND PROSPECTS

Business Review

For the six months ended 30 September 2003, the Group continued to grow in both turnover and net profit attributable to shareholders. During the period, the Group's turnover increased by 2% to HK\$253,940,000 (2002: HK\$248,672,000) while net profit attributable to shareholders grew by 62% to HK\$24,090,000 (2002 restated: HK\$14,874,000).

Frozen Meat Business

During the period under review, Hong Kong market remained stable while the PRC market was promising with growth in both sales and profits. Hong Kong experienced historical high levels of unemployment and deflationary prices, however the Group's businesses in Hong Kong remained stable, attributable to the Group's dedicated efforts in improving customer relationship and the strengthening of distribution network. On the other hand, the Group's business in the PRC market was benefited by its rapid economic growth and higher levels of disposable income of consumers resulting in increasingly higher demands for superior quality food products. Apart from the Group's dedication in actively seeking high quality food products to meet customers' needs, its well established purchasing network and its market leading position have laid down a solid foundation for the Group's frozen meat trading business to further expand its market share and therefore a sustainable growth in earnings and returns to the shareholders.

Investment in Food Business

The Group has further increased its equity interest in Four Seas Mercantile Holdings Limited ("FSMHL") to 26.84% at 30 September 2003 which continues to provide a stable and long term return to the Group. For the period under review, the Group's share of profit before tax was HK\$11,937,000.

Food product distribution remains the core business of FSMHL. Capitalizing on its extensive distribution network, continuous introduction of new products and active promotion and marketing campaigns, consequently sales in Hong Kong maintained a stable growth during the period. Furthermore, sales in the PRC continued to achieve satisfactory growth, benefiting from the rapid development of supermarket chains and FSMHL's local production base of 14 modern food factories producing a wide range of snack and confectionery products with superior quality.

Four Seas brand has always been gaining high reputation in both Hong Kong and the PRC markets. Four Seas brand products continue to be well received by consumers and thus achieved good growth in sales. During the period, FSMHL continued to add new products to widen the instant noodle series. "Four Seas Seaweed Hot & Spicy" instant noodle was launched and received encouraging response, largely due to the superior quality and the concerted efforts in promotion and marketing campaigns. It is believed that the Seaweed Hot & Spicy Instant Noodle will follow the success of Seaweed Instant Noodle to become another success story of Four Seas brand products.

At present, under its food manufacturing business FSMHL is operating a total of 17 food factories in Hong Kong as well as in the PRC. Managed by a dedicated and competent management team, all the factories have performed satisfactorily. Food products from these factories include snack seaweed, confectioneries, snacks, instant noodles, ice-cream, beverages, ham and sausages, biscuits, breads and cakes which have always been well received by consumers. A new factory, Calbee Four Seas factory in Shantou, was built during the period to develop the Calbee series of snack products in the PRC market with satisfactory progress.

FSMHL has always been actively seeking for investment opportunities to diversify its catering business. In addition to the successful operation of Pokka Café chain providing Japanese cuisine, the acquisition of Kung Tak Lam Shanghai Vegetarian Cuisine Limited (“Kung Tak Lam”), a well known restaurant in Hong Kong specializing in vegetarian food, has enabled the Group to diversify into the catering of health food. The operation of Kung Tak Lam has been developing satisfactorily.

“Four Seas International Food Expo” organized by the Group this November at the Hong Kong Convention and Exhibition Centre was completed with great success. Not only was it the first of its kind in Hong Kong for a corporation to organize singly over 80 worldwide food manufacturers and suppliers to participate in this kind of large-scale food exhibition, but also it has won excellent accolades from the industry participants from Hong Kong, the PRC and overseas. The achievements and success of the food exhibition has reaffirmed the Group’s leading position in the market and gained high recognition from local and international peers.

Prospects

Following a series of relaxation measures to Hong Kong from the PRC government after her accession into the WTO, including the visa exemption of individual visitors from Mainland China to Hong Kong and the signing of the Closer Economic Partnership Arrangement, Hong Kong’s economic conditions and consumer spending sentiment has been improving and showing signs of gradual recovery. Taking this opportunity, the Group will strive for strengthening its leading position in the market by means of continuously adding to its product lines superior quality products and aggressively expanding market share. In addition, the rapid economic growth in the PRC and the rising disposable income level have created a tremendous local consumption power in demanding for superior quality foods. Therefore, the Group is optimistic about its future business development.