

## BUSINESS REVIEW AND PROSPECTS

For the six months ended 30 September 2003, the Group's turnover grew by 12% to HK\$630,364,000 (2002: HK\$564,570,000). The net profit attributable to shareholders increased slightly to HK\$36,310,000 (2002 – restated: HK\$34,912,000).

Turnover in both Mainland China and Hong Kong increased during the period under review. Benefiting from the increasing awareness and popularity of Four Seas brand and the wide range of high quality food products produced by the Group's fourteen manufacturing plants in Mainland China, sales in Mainland China continued to achieve satisfactory growth. Although Hong Kong's business environment remained challenging and the spending sentiment was adversely affected by the outbreak of SARS during March to June, sales in the Hong Kong market had increased steadily. This was attributable to the Group's over thirty years' of knowledge and experience in marketing food products, an extensive and established distribution network and a portfolio of diversified businesses.

During the period under review, the fluctuations of the Japanese Yen had increased the cost of food products imported from Japan which affected the gross profit margin. Following the Group's policy of expanding the Mainland China market and the setting up of more food manufacturing plants in Mainland China with long term partners and famous Japanese food manufacturers during the past few years, the level of imported food products from Japan is expected to be gradually reduced which will alleviate the adverse impact from the fluctuations of the Japanese Yen on profit margin and improve the price competitiveness of the Group's products.

Among the business segments of the Group, food product distribution continued to be the core business. The Group had overcome the tough business environment caused by the weak spending sentiment in Hong Kong and the Group's performance in food distribution in Hong Kong remained stable through its extensive distribution network and a series of marketing and promotional activities. During the period, with the fast growth of hyper stores and supermarket chains in Mainland China, the Group has effectively launched its products into the market which have been well-received by the consumers and resulted in satisfactory sales growth. The establishment of Four Seas Group Guangdong Province Headquarter in Shantou, opened in July 2003, has provided the Group with an effective vehicle to manage the fast growing sales and the extensive logistics in Mainland China. Moreover, the Group's snack food specialty chain stores, "Okashi Land" continued to introduce new and trendy Japanese snacks to the market and remained the most popular outlet for consumers seeking the latest trendy Japanese snack food products.

The Group is now operating a total of seventeen food manufacturing plants in Mainland China and Hong Kong under its food manufacturing business to produce a wide range of products including seaweed, high quality candies, snacks and confectioneries, instant noodles, ice-cream, beverages, ham and sausages, biscuits, cakes and breads, which are well-received by consumers. Under the Group's dedicated and competent management, all the factories operated satisfactorily during the period. In order to develop the enormous market in Mainland China for the Calbee products, the Group has built and newly opened the Calbee Four Seas factory in Shantou in July 2003 which has been progressing smoothly. Through the launch of aggressive marketing and promotional activities in major cities throughout Mainland China, turnover continued to increase. During the period, the Group also acquired the remaining 49% equity interest in Li Fook (Qingdao) Foods Co., Ltd., which specialises in producing "Four Seas" brand instant noodles. This gives the Group more flexibility in determining the marketing strategy to develop the enormous instant noodle market.

Sales of Four Seas brand products continued to increase, resulting from its popularity among consumers in both Mainland China and Hong Kong and high recognitions and awards received locally and internationally. Aiming at expanding the series of Four Seas brand instant noodles, the Group has recently developed and launched on the market "Four Seas Seaweed Hot & Spicy Instant Noodle" under an extensive marketing and promotion campaign, including TV advertisements. The response was encouraging and it is believed that "Four Seas Seaweed Hot & Spicy Instant Noodle" will become another successful "Four Seas" brand product following the success of "Four Seas Seaweed Instant Noodle". In addition, the Group held with great success the "Four Seas International Food Expo" in November 2003, which gathered more than eighty food manufacturers from around the world and it is believed to be a pioneer food enterprise in Hong Kong to conduct singly such a large-scale food exhibition at the Hong Kong Convention and Exhibition Centre. The successful achievement of "Four Seas International Food Expo" not only gained high appreciations from the industry participants from Hong Kong, Mainland China and overseas, but also attracted over thousands of visitors to the exhibition. Furthermore, it has also enhanced the recognition of "Four Seas" brand and the Group among local and international peers.

Further to the operation of Pokka Café chain established by the Group with Pokka Corporation of Japan, the Group has begun to invest in different kinds of catering businesses. The Group successfully acquired the famous “Kung Tak Lam Shanghai Vegetarian Cuisine Limited” (“Kung Tak Lam”) which specialises in Shanghai vegetarian cuisine and is well-received by the health conscious customers. Meanwhile, the Group is planning to produce a series of health food products under this brand name.

Looking forward, the Group will continue to focus on the lines of businesses in trading of food materials, food manufacturing, food product distribution and restaurant chain business. It is expected that the fast growing economy and the strong spending power in Mainland China will continue which will further fuel greater demand for high quality food products and will provide a vast business opportunity for the Group. The Group is committed to aggressively develop the Mainland China market to enhance its leading position in the market by capitalising on Four Seas Group Guangdong Province Headquarter and its well established production base of fourteen manufacturing plants located in Shenzhen, Guangzhou, Huizhou, Shantou, Suzhou and Qingdao. The series of favourable measures implemented by the Chinese Government, including the signing of Closer Economic Partnership Arrangement between Mainland China and Hong Kong and the exemption of visa issuance to individual visitors from Mainland China to Hong Kong, is expected to boost local consumption in Hong Kong and helps gradual recovery of the local economy. In light of the fast growing economy in Mainland China, the improved economic conditions in Hong Kong and the Group's dedication to develop these markets by leveraging its competitive edge, the Group is optimistic of and full of confidence in its future business development.