

## **BUSINESS REVIEW AND PROSPECTS**

### **BUSINESS REVIEW**

The Group recorded a turnover of HK\$290,443,000 for the six months ended 30 September 2004 (2003: HK\$253,940,000), representing an increase of 14% over that of last corresponding period. The profit attributable to shareholders declined to HK\$19,680,000 (2003: HK\$24,090,000).

### **FROZEN MEAT BUSINESS**

During the period under review, market conditions in Hong Kong have gradually recovered to improve the local consumers spending sentiment and demand for superior food products. This has paved the way for the steady recovery of the local retailing business. Meanwhile, the Group was able to sustain a steady growth in both turnover and operating profit in Hong Kong market, by leveraging its solid business foundation, extensive distribution network, high reputation and excellent customer services. The Mainland China market performed below our expectation as a result of the increased purchase costs of the frozen meats which adversely affected the profit margin as well as the sales.

### **INVESTMENT IN FOOD BUSINESS**

The Group continues to enjoy the share of profits from Four Seas Mercantile Holdings Limited (“FSMHL”) through its long-term investment in FSMHL. As at 30 September 2004, the Group held 26.95% equity interests in FSMHL. For the period under review, FSMHL recorded 14% growth in earnings and the Group shared a profit before tax of HK\$12,962,000.

Food distribution remains as the major core business of FSMHL. Capitalizing on an extensive distributing network, the introduction of various kinds of excellent quality food products and a series of aggressively promotional campaign; FSMHL was able to achieve a sustainable growth in turnover. During the period, FSMHL was awarded the “Hong Kong Outstanding Enterprises Parade 2004” by the Economic Digest. Meanwhile, Okashi Land continues to introduce many varieties of trendy Japanese snacks and has always been the favorite shopping place for the young consumers. Okashi Land was also awarded with “Superbrands Hong Kong 2004” to bestow on her popularity among consumers.

The renowned “Four Seas Brand” has always been a very popular brand in both Mainland China and Hong Kong. The Four Seas Brand products continue to be well liked by consumers. During the period, FSMHL devoted substantial efforts in promoting Four Seas Brand products, in particular, the Four Seas Instant Noodle. More recently, FSMHL focused on launching a new series of Four Seas Brand biscuit products, including Seaweed Crackers, Saltine Crackers and Sesame Crackers. Through a series of large-scale marketing and promotional campaign the crackers series receive overwhelming responses.

Food manufacturing is another core business of FSMHL. By now, FSMHL owns a total of 17 food manufacturing factories in both Mainland China and Hong Kong. With stringent food quality control, all the manufacturing plants are producing various kinds of high quality food products. Sales of all of these products have been increasing as they are well received by consumers. More importantly, the self-production has provided FSMHL with greater flexibility to further develop its markets in Hong Kong and Mainland China to meet the growing and strong demand of quality food products by the consumers.

For the café and restaurant business, Kung Tak Lam Shanghai Vegetarian Cuisine Restaurant and Yutaka Japanese Dinning Bar continue to gain patronage from customers through the provision of delicious and superior quality cuisine, high standard services and the elegant and comfortable environment. Besides, Pokka Café restaurant chain also achieved a satisfactory result for the period.

## **PROSPECTS**

Looking forward, with the improved economic conditions, the promising economic outlooks and the ease of unemployment rate in Hong Kong, consumer confidence has started to revive and local consumer demand has lifted. Benefiting from the escalating number of individual travelers from the Mainland, local spending sentiment will further be boosted. At the same time, the continuing economic growth momentum in Mainland China and the people's rising disposable income level will further accelerate the demand for high quality food products which further opens up the vast business opportunities for the Group's future development.

As a whole, the Group will grasp the present favorable opportunities and its market leader position to continue expanding more varieties of quality food products and striving for exploring new markets. Capitalizing on the Group's prudent marketing strategies, the Group will be able to maintain its leading position in the food industry and is full of confidence in its future development.