Management Discussion and Analysis

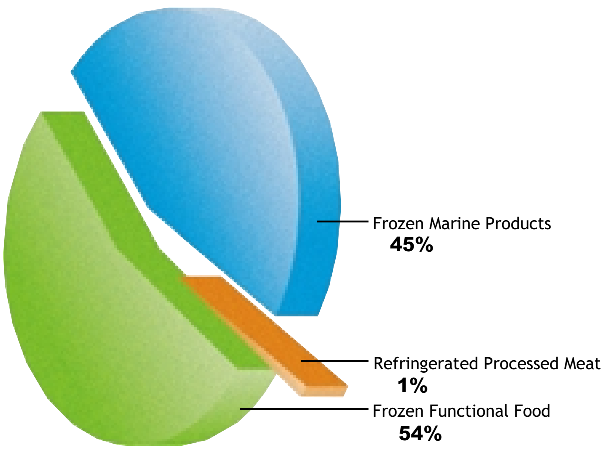
BUSINESS REVIEW

(For comparison purpose, all the analysis below is based on the proforma results of the Group for the year ended 31 December 2001 and the year ended 31 December 2000.)

As at 31 December 2001, the Group recorded turnover of approximately RMB274,328,000, representing strong growth of approximately 128% as compared with the previous year. During the year under review, the gross margin was approximately 47% as compared to 48% for the year 2000. Profit attributable to shareholders also surged significantly from approximately RMB42,133,000 in 2000 to approximately RMB87,076,000 in 2001, representing a growth rate of 107% which is in line with the profit estimate made in the prospectus of the Company dated 30 January 2002. Proforma basic earnings per share also recorded an increase of approximately 106% from approximately RMB5.3 cents in the previous year to approximately RMB10.9 cents. The rapid growth of turnover is mainly attributable to: (1) the surging overseas demand for frozen marine and functional products, resulted in an increase in overseas booking orders which in turn boosted sales; (2) the increase in production lines and the growing economies of scale have successfully enabled the Group to achieve lower costs for delivering quality yet economical products to gain a larger market share. During the year under review, the Group was mainly engaged in the processing of frozen marine products, frozen functional products and refrigerated meat products, which accounted for 45%, 54% and 1% respectively of the Group's total turnover. The Group has a range of over 100 products with annual production volumes of approximately 6,600 tones (2000:approximately 3,900 tones).

FROZEN MARINE FOOD DIVISION

During the year, turnover in the frozen marine products division, which reported strong growth, reaching approximately RMB122,223,000, representing approximately 45% of the Group's total turnover. Meeting the taste of consumers, the Group has endeavored to introduce a number of new products, such as abalone, Asiatic hard-shell clams and octopuses. Overall, the gross profit margin for this division was remained high at approximately 50% as compared with approximately 55% in year 2000. With high profits margins, this division has greatest growth potential. In 2001, the Group produced nearly 4,500 tones of frozen marine products.



As quality frozen marine food becomes more popular among the Japanese, the demand is expected to gradually increase. The Group exported sales of approximately 3,000 tones of frozen marine food to Japan during the year, accounting for approximately 27% of Group's total turnover. Apart from the Japanese market, the Group is also committed to expanding the U.S. market. In June 2001, the Group entered into a number of memorandums of understanding with PanaPesca USA Corporation, for supplying an annual total of approximately 2,000 tones of pre-cooked and frozen shellfish products such as Asiatic hard-shell clams, octopuses, abalone, and mussels to the U.S. market for a 5-year period. As at 31 December 2001, the Group had shipped over 2,000 tones of such products to the U.S. market, accounted for approximately 18% of turnover.

Frozen Functional Food Division

The Group's frozen functional foods mainly consist of muscovy ducks and roasted eels which are shipped to the U.S. and Japan. In 2001, the Group processed approximately 2,500 tones of frozen functional foods with turnover of approximately RMB150,690,000, accounted for approximately 54% of the Group's total turnover. The gross margin for the frozen food division in 2001 and 2000 were 45% versus 47% respectively. The 2% point slightly decrease in gross profit margin was mainly due to the increase in the average unit cost of raw materials.

To ensure the supply of high quality of raw materials, the Group entered into a 20-year leasing agreement with the Land Bureau of Fuqing for a 500-acre duck farm land in Zhuangbian Chu Qian Tan Di, Fujian for its muscovy duck farming. Independent farmers also entered into contracts with the Group in respect of their breeding methods and the provision of raw materials for the Group in the second half of 2002. This arrangement will provide the Group with better means to ensure the natural quality of raw materials and the stability of its raw material supplies.

Refrigerated Meat Division

With products principally sold domestically under the Longyu brand, the refrigerated meat division recorded stable growth with products being sold under the Longyu brand for domestic sales. Major customers under this division include hotels, supermarkets and chain restaurants in the Fujian province. The turnover of refrigerated meat products which accounted for approximately 1% of the Group's total turnover.

Production

Benefiting from the natural advantages of being located in Fujian, the Group has signed cooperative contracts with 43 poultry and marine suppliers for preferential purchases arrangement for the best quality raw materials. These arrangements provide the Group with a natural, quality and steady raw materials at low cost.

During the year under review, the Group has a total of 5 comprehensive production lines which meet international standards, producing approximately 6,600 tonnes of products annually. Among these production lines, one is for the production of roasted eels, three are for shellfish and the remainder for refrigerated meat products. The normal annual production capacities are 4,500, 3,000 and 1,000 tonnes respectively. In contrast with the annual production capacities for year ended 31 December 2000, the overall growth rate are approximately of 300% amongst the corresponding production lines.

Marketing and Promotion

While the Group's product are mainly exported to overseas countries, Japan is the largest overseas market segment of the Group, representing approximately 80% (2000: 90%) to the Group's total turnover, with the U.S. and the PRC markets accounted for 19% (2000: 9%) and 1% (2000: 1%) respectively.

With regard to exports, the Group works with four import/export companies in the PRC, who act as export agents for the Group handling the relevant exporting procedures, quotas, booking orders and exchange transactions to reduce costs to the Group. With the increase in export sales and the implementation of resources integration, the proportion of the Group's direct export sales increased to approximately 5% of its total turnover as at 31 December 2001.

Currently, the Group's major overseas clients include Kansai Seafood Co. Ltd., T.B. Shoji Co. Ltd., Shinwa Boueki Co. Ltd., Maruha Corporation and PanaPesca USA Corporation, altogether accounted for approximately 64% of the Group's total export sales. Domestic customers of the Group include Xiamen ZhenLi Fast Food Restaurant, Xiamen Fulian Pu Li Supermarket and Lakeside Hotel. By choosing to trade with these clients, the Group can ensure stable sales and enhance its production efficiencies.

Research and Development

In 2001, the Group's research and development expenses was approximately RMB230,000 (2000: approximately RMB126,000). To develop more varieties of products, the Group intends to cooperate with the research institutes of various universities in the PRC and universities and research institutes in Japan.

Prospects

China is a market with tremendous potential for development. As the rapid growth of the domestic economy increases the average income of citizens, the eating habits of the population are also changing. Apart from being more health and nutrition conscious, the demand for natural frozen foods is also surging. With the growing demand in the overseas market, natural foods will lead the eating trends in the future. Nowadays, advanced processing technology not only enable the Group to provide more choice to customers but also help in maintaining the original taste and freshness of the food at a lower price. Overall natural processed foods are creating a new market place, helping the Group to develop its businesses, increase turnover and bring better returns to shareholders.

Usually, frozen processing technologies mainly apply to meat products. However, with improvements in freezing technologies, frozen vegetables have become much more popular and well received by food cities around the world. Global consumption of frozen vegetables has also been increasing, growing from US$230 million in 1997 to US$2 billion in 1999.

Leveraging on its solid customer base, the Group is capitalizing on business opportunities by developing frozen organic vegetable products, realizing its vertical business integration to become a one-stop natural foods supplier. The Group rents land to demonstrate the organic farming methods for vegetables, transfers relevant technologies to its partners and outsource the farming process to them. The Group is now negotiating with some of these farmers and is expected to commence production during the second half of 2002. Products will mainly shipped to Japan and the U.S..

At the same time, the Group is seeking to increase its sales and marketing activities, enhance brand awareness and to establish the Longyu brand as a quality, healthy, nutrition-rich frozen natural food supplier in the global consumers market. By adopting the latest marketing techniques, including advertising and promotions, the Group is committed to developing and strengthening consumer awareness of its products. To expand its distribution channel, the Group plans to open 10-15 chain stores for natural foods and frozen foods in Cheng Du, Kun Ming and Chong Qing through franchise operations. These retail stores will sell products under the Longyu brand, using retail sales to boost the wholesale business.

Management Discussion and Analysis *(continued)*

Prospects (continued)

Additionally, in order to enhance the speed of inspection and production efficiency, the group will introduce 3 production lines and advanced inspection facilities from overseas, in order to expand the production scale of its marine products. The Group also plans to introduce advanced packaging technologies to enhance its competitiveness and product quality.

In the future, the Group will continue to consolidate its overseas market, as well as to explore the PRC market. The Group will increase its investment in frozen functional foods and frozen marine foods and is committed to exploring the frozen organic vegetables market. All of these will help to expand the profit base and bring better returns to shareholders.

Employee and Remuneration Policies

As at 31 December 2001, the Group had approximately 422 employees (31 December 2000: 378 employees). The increase in the number of staff is in line with the expansion of the Group's scale of production in PRC.

The Group's employees were paid at fixed remuneration. Other benefits include Hong Kong Mandatory Provident Fund and mandatory contributions to the state-sponsored retirement plan in PRC.

The total staff remuneration incurred during the year amounted to approximately RMB8,664,000 (2000: approximately RMB3,122,000). It is the Group's policy to review its employee's pay level and performance bonus system regularly to ensure that the remuneration policy is competitive within the relevant industries.

As at 31 December 2001, the Group had not adopted any share option scheme. On 17 January 2002, the Company adopted the share option scheme as an incentive for the contribution to the Group.

It is the Group's policy to encourage its subsidiaries to provide training classes or seminars that related to the Group's business to staff. Tailor made internal training program are also provided to staff in our PRC factories.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2001, the Group had aggregate outstanding borrowings approximately RMB42,800,000 (2000: approximately RMB42,800,000) comprising secured short term bank loans of approximately RMB34,500,000 (2000: approximately RMB34,500,000), unsecured short term loan from provincial government of approximately RMB1,300,000 (2000: approximately RMB1,300,000) and a secured long term bank loan of approximately RMB7,000,000 (2000:

approximately RMB7,000,000). Except for the unsecured short term loan from the provincial government, the rest are secured by corporate guarantees from Fuqing Longfu Forage Co., Ltd, a company owned by a relative of Mr. Yeung Chung Lung, a director of the Company. The secured short term bank loans are repayable within a year. The unsecured short term loan from the provincial government of Fujian Province, PRC is repayable on demand and bear interest at 2% per month.

Such short term bank loans were used as working capital. The interest rate of the secured short term bank loans were charged at the rates ranging from 6.435% to 6.7% per annum. The secured long term bank loan bears an interest at 7.11% per annum and is repayable in November 2003. The secured long term bank loan is designated for the improvement in technology.

None of the above borrowings were pledged with any Group's assets or had adopted any covenants.

The Group's debt to equity ratio is arrived at by dividing the total borrowings with its total equity. The ratio is reduced from 35% in 2000 to 30% in 2001.

As at 31 December 2001, the gearing ratio (i.e. Interest bearing liabilities/ Total assets) was 20% (2000: 23%).

The Directors are of the opinion that with the financial resources available to the Group including the internal generated funds, banking facilities and the net proceeds from the Placing and New Issue. The net proceeds amounted to approximately RMB136,500,000 (equivalent to HK$130,000,000) from Placing and New Issue in February 2002, after deducting related expenses. Hence, the Group has sufficient working capital to apply to future capital expenditure and other capital requirement.

Treasury Policy and Exposure to Fluctuation in Exchange Rates

As at 31 December 2001, the Group had cash and bank balance of approximately RMB24,055,000 (2000: approximately RMB25,333,000). Most of them were deposited in the banks in PRC and mainly for working capital.

For the year ended 31 December 2001, the Group conducted its business transactions principally in U.S. dollars and Renminbi. The Group experienced only immaterial exchange rate fluctuations as the Group's monetary assets are principally denominated in U.S. dollars and Renminbi which are relatively stable during the year.

For the reasons stated above, the Group did not employ any financial instruments for hedging purposes. The management will continue to monitor the foreign exchange exposure of the Group and will take when the prudence measures as deemed appropriate, if necessary.

Significant Investment and Acquisitions

During the year under review, the Group made no significant investment nor had no material acquisition or disposals of subsidiaries and associates.

Contingent Liabilities

As at 31 December 2001, the Group had no material contingent liabilities.

Capital Commitment

The Group's future plan for material capital assets will be in line with what has been stated in the paragraph headed of "Use of proceeds" under the section headed "Future Plans" of the prospectus of the Company dated 30 January 2002 (the "Prospectus").

Use of Proceeds

The Group was successfully listed on the Main Board of The Hong Kong Stock Exchange Limited on 11 February 2002. Information related to the Group's future plans was included in the Prospectus. After deducting underwriting commission and other related expenses, the net proceeds of the offer came to approximately HK$130,000,000.

The Group intends to use these net proceeds as follows:

- to expand its production capacity for frozen marine food products;
- to upgrade production facilities such as cold storage facilities, production lines and the plant at the Group's existing production base;
- to fund the research and development of food production and the acquisition of food processing equipment;

- to set up processing and packaging facilities for the production of frozen vegetables and fruits;
- to implement new and high value-added packaging technologies;
- to fund marketing and promotional activities in connection with its exports and local sales;
- to upgrade existing production facilities in order to fulfill requirements for organic and green food certification in respect of products such as carrots, Chinese cabbage, beans and mushrooms; and
- to be used as the Group's general working capital.