

# Our Business

## HALFYEAR RESULTS TO 30 JUNE 2002

Group Turnover	+97%	to	RMB170 million
Gross Profit	+104%	to	RMB 81 million
Profit attributable to Shareholders	+92%	to	RMB 58 million
Earnings per share - Basic	+52%	to	RMB 7.67 cents

## HIGHLIGHTS

- Strong growth in Group's turnover and profit
- Frozen marine products poised strong growth and representing predominant source of revenue
- Reputable customer base expanding and reaching new markets
- Enormous opportunities in PRC and International markets
- Sole food processor in Fujian accredited with HACCP certificate
- Solid financial position



# Our Business

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2002 - UNAUDITED

The Board of Directors (the "Board") of First Natural Foods Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002 together with the comparative figures for the corresponding period in 2001 as follows:-

### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Note	For the six months ended 30 June	
		2002 RMB'000 (unaudited)	2001 RMB'000 (unaudited)
Turnover	3	170,562	86,639
Cost of sales		<u>(89,875)</u>	<u>(47,157)</u>
Gross profit		80,687	39,482
Other revenue	5	519	101
Distribution costs		(3,233)	(956)
Administrative expenses		(6,939)	(2,325)
Other operating expenses		<u>(2,353)</u>	<u>(60)</u>
Profit from operations		68,681	36,242
Finance costs	6(a)	<u>(2,002)</u>	<u>(1,580)</u>
Profit from ordinary activities before taxation	6	66,679	34,662
Taxation	7(a)	<u>(8,763)</u>	<u>(4,491)</u>
Profit attributable to shareholders		<u>57,916</u>	<u>30,171</u>
Earnings per share			
- Basic	9(a)	<u>RMB7.67 cents</u>	<u>RMB5.03 cents</u>



# Our Business

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2002

	Note	At 30 June 2002 RMB'000 (unaudited)	At 31 December 2001 RMB'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Fixed assets	10	89,496	70,784
Prepaid rentals		3,833	3,933
		<b>93,329</b>	<b>74,717</b>
<b>CURRENT ASSETS</b>			
Inventories	11	23,338	9,632
Trade and other receivables	12	79,036	99,234
Bank deposits		31,800	—
Cash at bank and in hand		169,031	24,055
		<b>303,205</b>	<b>132,921</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	5,797	17,752
Bank loans		34,500	34,500
Taxation	7(b)	14,439	9,463
Provision for staff welfare benefit		4,672	5,055
		<b>59,408</b>	<b>66,770</b>
<b>NET CURRENT ASSETS</b>			
		<b>243,797</b>	<b>66,151</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>337,126</b>	<b>140,868</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank loans		7,000	7,000
<b>NET ASSETS</b>			
		<b>330,126</b>	<b>133,868</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	42,400	8
Reserves	15	287,726	133,860
		<b>330,126</b>	<b>133,868</b>



# Our Business

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2002

	For the six months ended 30 June	
	2002 RMB'000 (unaudited)	2001 RMB'000 (unaudited)
Net cash inflow from operating activities	65,428	21,666
Net cash outflow from investing activities	(53,985)	(6,707)
Net cash inflow/(outflow) from financing activities	133,533	(1,290)
Increase in cash and cash equivalents	144,976	13,669
Cash and cash equivalent at 1 January	24,055	25,333
Cash and cash equivalent at 30 June	169,031	39,002
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash at bank and in hand	169,031	39,002



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory reserve fund RMB'000	Enterprise expansion reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2001	—	—	—	—	—	80,867	80,867
Profit for the period	—	—	—	—	—	30,171	30,171
At 30 June 2001 (note(a))	—	—	—	—	—	111,038	111,038
At 1 January 2002 (note(b))	—	—	41,527	10,081	10,081	72,171	133,860
Issue of shares arising from the reorganisation (note 14(a),(b)&(d))	114	—	—	—	—	—	114
Effect of the reorganisation	—	—	(106)	—	—	—	(106)
Issue of shares through a public offer (note 14(e))	10,600	144,160	—	—	—	—	154,760
Share issue expenses	—	(16,418)	—	—	—	—	(16,418)
Capitalisation issue of shares (note 14(f))	31,686	(31,686)	—	—	—	—	—
Profit for the period	—	—	—	—	—	57,916	57,916
At 30 June 2002	42,400	96,056	41,421	10,081	10,081	130,087	330,126

Notes:

- (a) The Company was incorporated on 27 July 2001. During the six months ended 30 June 2001, the Company had not yet set up and accordingly, no comparative figures is presented in respect of the Company's share capital at 30 June 2001.
- (b) The comparative share capital of the Group as at 31 December 2001 shown on the consolidated balance sheet represents the issued share capital of First China Technology Limited, a subsidiary of the Company.



## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2002

### I. GROUP REORGANISATION AND BASIS OF PREPARATION

#### (a) The Company

The Company was incorporated in Bermuda on 27 July 2001 under the name of First China Natural Foods Holdings Limited as an exempted company with limited liability under the Companies Act 1981 of Bermuda. On 10 August 2001, the Company changed its name to First Natural Foods Holdings Limited.

#### (b) Group Reorganisation

Pursuant to a group reorganisation (the "Reorganisation") for the purpose of listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of First China Technology Limited (the "FCTL") through a share exchange and consequently became the holding company of the Group on 17 January 2002. Further details of the Reorganisation are set out in the Company's prospectus dated 30 January 2002.

On 11 February 2002, 200,000,000 ordinary shares of HK\$0.05 each were issued to the public at HK\$0.73 each upon the listing of the Company's shares on the Stock Exchange.

#### (c) Basis of Preparation

The Group resulting from the Reorganisation is regarded as a continuing entity, and accordingly, the unaudited condensed consolidated accounts have been prepared for on the basis of merger accounting. The unaudited interim financial report has been prepared as if the current group structure had been in existence throughout the six month periods ended 30 June 2002 and 2001, rather than from the date on which the Reorganisation was completed.



## 2. PRINCIPAL ACCOUNTING POLICIES

The unaudited interim financial report has been prepared in accordance with the requirements of Main Board Listing Rules of the Stock Exchange, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

The principal accounting policies and methods of computation used in the preparation of this interim financial report is consistent with those used in the annual financial report for the year ended 31 December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 15 (revised)	: Cash flow statements
SSAP 25 (revised)	: Interim financial reporting
SSAP 34	: Employee benefits

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

### (a) SSAP 15 (revised) : Cash flow statements

The presentation and classification of items in the cash flow statement have been changed due to the adoption of SSAP 15 (revised). As a result, cash flow during the period has been reclassified by operating, investing and financing activities. For the six months ended 30 June 2001, net cash outflow from taxation paid of RMB6,289,000 has been reclassified as operating cash flow. Interest received of RMB1,000 has been reclassified as investing cash flow. Interest paid of RMB886,000 has been reclassified as financing cash flow.

### (b) SSAP 34 : Employee benefits

This new SSAP prescribes the accounting and disclosure for employee benefits. There is no material impact on the financial results and financial position of the Group by the adoption of this new SSAP and accordingly comparative figures have not been restated.

## 3. TURNOVER

The principal activities of the Group are manufacturing and sale of food products.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is after deduction of any goods returns and trade discounts.



# Our Business

## 4. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segment. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

### Business segments

The Group comprises the following main business segments:

- Frozen marine food products : The manufacture and sale of frozen marine food products
- Frozen functional food products : The manufacture and sale of frozen functional food products
- Refrigerated processed meat products : The manufacture and sale of refrigerated processed meat products

	For the six months ended 30 June (unaudited)									
	Frozen marine food products		Frozen functional food products		Refrigerated processed meat products		Unallocated		Combined	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	106,465	25,821	63,957	59,513	140	1,305	—	—	170,562	86,639
Segment result	54,104	11,802	26,556	27,526	27	154	—	—	80,687	39,482
Unallocated operating income and expenses									(12,006)	(3,240)
Profit from operations									68,681	36,242
Finance costs									(2,002)	(1,580)
Taxation									(8,763)	(4,491)
Profit attributable to shareholders									57,916	30,171





## 4. SEGMENT INFORMATION (CONTINUED)

### GEOGRAPHICAL SEGMENTS

In presenting information on the basis of geographical segments, segment revenue is based on the destination of delivery of goods.

	For the six months ended 30 June (unaudited)							
	PRC		Japan		United State of America		Combined	
	2002	2001	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	<u>2,170</u>	<u>1,816</u>	<u>129,784</u>	<u>68,152</u>	<u>38,608</u>	<u>16,671</u>	<u>170,562</u>	<u>86,639</u>

## 5. OTHER REVENUE

	For the six months ended 30 June	
	2002 RMB'000 (unaudited)	2001 RMB'000 (unaudited)
Subsidy income *	<u>260</u>	<u>100</u>
Interest income from banks	<u>259</u>	<u>1</u>
	<u><u>519</u></u>	<u><u>101</u></u>

\* Subsidy income represents discretionary grants received from a PRC local government authority in respect of the development of agricultural products carried out by Fuqing Longyu Food Development Co., Limited, a wholly owned subsidiary of the Company.



# Our Business

## 6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	For the six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(a) Finance costs		
Interest on borrowings wholly repayable within five years		
- bank loans	2,002	1,377
- other loans	—	203
	<u>2,002</u>	<u>1,580</u>
(b) Other items		
Cost of inventories (including provision of obsolete and slow-moving inventories of RMB909,000 (2001: Nil)) #	89,875	47,157
Staff costs #	3,170	1,655
Depreciation of fixed assets #	3,732	3,132
Operating lease charges in respect of premises	454	100
Provision for bad and doubtful debts	<u>1,698</u>	<u>60</u>

# Cost of inventories includes staff costs of approximately RMB1,617,000 (2001: RMB927,000) and depreciation expenses of approximately RMB3,204,000 (2001: RMB2,994,000) that have also been included in the respective total amounts disclosed separately above.

## 7. TAXATION

(a) Taxation in the consolidated income statement represents:

	For the six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC enterprise income tax	<u>8,763</u>	<u>4,491</u>



## 7. TAXATION (CONTINUED)

Notes:

(i) **Hong Kong profits tax**

No Hong Kong profits tax has been provided for as the Group had no estimated assessable profits arising in or derived from Hong Kong.

(ii) **PRC enterprise income tax**

Fuqing Longyu Food Development Co., Limited, a wholly owned subsidiary established in the Coastal Open Economic Area of PRC, is subject to PRC enterprise income tax at a rate of 24%. However, it is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in enterprise income tax for the next three years. Fuqing Longyu Food Development Co., Limited became profitable after offsetting prior year losses in the year ended 31 December 1998 and accordingly, was exempted from PRC enterprise income tax for the year ended 31 December 1998 and 1999 and thereafter, it was subject to PRC enterprise income tax at a rate of 12% for the next three years.

Accordingly, the PRC enterprise income tax for the both periods presented was at the rate of 12% on the estimated assessable profit.

(iii) **Deferred taxation**

Deferred taxation has not been provided for the financial statements as there were no significant timing differences arising during the period and at the balance date.

(b) Taxation in the consolidated balance sheet represents:

	<b>At 30 June 2002 RMB'000 (unaudited)</b>	<b>At 31 December 2001 RMB'000 (audited)</b>
PRC enterprise income tax	<b>3,973</b>	6,531
PRC value-added tax	<b>6,940</b>	—
PRC urban real estate tax	<b>3,526</b>	2,932
	<b><u>14,439</u></b>	<b><u>9,463</u></b>

## 8. DIVIDEND

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).



# Our Business

## 9. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB57,916,000 (2001: RMB30,171,000) and the weighted average of 754,696,000 ordinary shares (2001: 600,000,000 ordinary shares prior to the share offer but after adjusting for the capitalisation issue in 2002) in issue during the period.

### (b) Diluted earnings per share

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the period ended 30 June 2002 (2001: nil).

## 10. ADDITION TO FIXED ASSETS

During the period, the Group spent approximately RMB706,000 (six months ended 30 June 2001: nil) on the acquisition of furnitures and equipment for the new office in Hong Kong and RMB21,738,000 (six months ended 30 June 2001: RMB8,080,000) on the manufacturing plant and machineries in PRC in order to enlarge the Group's production capacities respectively.

## 11. INVENTORIES

	<b>At 30 June 2002 RMB'000 (unaudited)</b>	<b>At 31 December 2001 RMB'000 (audited)</b>
Raw materials	2,713	1,139
Finished goods	22,917	9,876
	<hr/>	<hr/>
	25,630	11,015
Less: Provision for obsolete and slow moving inventories	(2,292)	(1,383)
	<hr/>	<hr/>
	<b>23,338</b>	<b>9,632</b>
	<hr/> <hr/>	<hr/> <hr/>

There was no inventories carried at net realizable value as at 30 June 2002 and 31 December 2001.

## 12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables with the following ageing analysis:

	<b>At 30 June 2002 RMB'000 (unaudited)</b>	<b>At 31 December 2001 RMB'000 (audited)</b>
0 to 1 month	18,476	44,537
1 to 3 months	24,835	8,033
More than 3 months but less than 12 months	3	—
More than 12 months	—	—
	<b>43,314</b>	<b>52,570</b>
Less: General provision for bad and doubtful debts	<b>(4,331)</b>	<b>(2,633)</b>
Trade receivables, net	<b>38,983</b>	<b>49,937</b>
Other receivables, deposits and prepayments	<b>40,053</b>	<b>49,297</b>
	<b>79,036</b>	<b>99,234</b>

### Credit Policy:

The Group generally does not grant any pre-determined credit terms to customers. Debts are usually settled within 3 months from the date of billing. Debtors with balance that are more than 3 months are requested to settle all outstanding balance before any further credit is granted.

## 13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following ageing analysis:

	<b>At 30 June 2002 RMB'000 (unaudited)</b>	<b>At 31 December 2001 RMB'000 (audited)</b>
Due within 1 month or on demand	312	1,094
Due after 1 month but within 3 months	449	432
Due after 3 months but within 6 months	—	378
Due after 6 months	30	46
	<b>791</b>	<b>1,950</b>
Total trade payables	<b>791</b>	<b>1,950</b>
Loans payable	—	1,300
Accruals and other payables	<b>3,878</b>	<b>11,867</b>
Due to a director	<b>1,128</b>	<b>2,635</b>
	<b>5,797</b>	<b>17,752</b>



# Our Business

## 14. SHARE CAPITAL

Movements of share capital were:

	Note	Number of share	Amount RMB'000
Authorised			
- Ordinary shares of HK\$0.05 (equivalent to RMB0.053) each			
Upon incorporation of the Company	(a)	100,000	106
Subdivision of share capital	(b)	1,900,000	—
Increase in authorised share capital	(c)	1,998,000,000	105,894
At 30 June 2002		<u>2,000,000,000</u>	<u>106,000</u>
Issued and fully paid			
- Ordinary shares of HK\$0.05 (equivalent to RMB0.053) each			
Issue of shares upon incorporation	(a)	100,000	106
Subdivision of share capital	(b)	1,900,000	—
Issue of shares arising from the reorganisation	(d)	156,000	8
Issue of shares through a public offer of 200,000,000 ordinary shares	(e)	200,000,000	10,600
Capitalisation of issue of shares	(f)	597,844,000	31,686
At 30 June 2002		<u>800,000,000</u>	<u>42,400</u>

The comparative share capital of the Group as at 31 December 2001 shown on the consolidated balance sheet represents the issued share of FCTL, a subsidiary of the Company.

Notes:

- On 27 July 2001, the Company was incorporated with an authorised share capital of HK\$100,000 (equivalent to RMB106,000), divided into 100,000 ordinary shares of HK\$1.00 each. All these 100,000 ordinary shares of HK\$1.00 each, nil paid, were allotted and issued.
- On 17 January 2002, by means of a sub-division of share capital, the par value of the ordinary shares of the Company was reduced from HK\$1.00 each to HK\$0.05 each, and every issued and unissued ordinary share of HK\$1.00 was subdivided into 20 ordinary shares ("Subdivision"). Immediately after the Subdivision, the authorised share capital of the Company became HK\$100,000 (equivalent to RMB106,000) comprising 2,000,000 ordinary shares of HK\$0.05 each of which all ordinary shares were in issue.



## 14. SHARE CAPITAL (CONTINUED)

Notes: (Continued)

- (c) On 17 January 2002, the authorised share capital of the Company was increased from HK\$100,000 (equivalent to RMB106,000) to HK\$100,000,000 (equivalent to RMB106,000,000) by the creation of an additional 1,998,000,000 ordinary shares of HK\$0.05 each ranking pari passu with the existing ordinary shares of the Company in all respects.
- (d) On 17 January 2002, the Company acquired the entire issued share capital of First China Technology Limited ("FCTL") in consideration for (i) the transfer of 2,000,000 nil paid ordinary shares of HK\$0.05 each in the Company held by the shareholders of the Company and (ii) the issue and allotment of 156,000 fully paid ordinary shares, to the shareholders of FCTL. The Company became the holding company of the Group with effect from 17 January 2002.
- (e) On 11 February 2002, 200,000,000 ordinary shares of HK\$0.05 each were issued by way of the public offer for cash of HK\$0.73 per share pursuant to the listing of the Company's shares on the Main Board of the Stock Exchange.
- (f) On 11 February 2002, share premium of HK\$29,892,200 (equivalent to approximately RMB31,686,000) was capitalised for the issuance of 597,844,000 ordinary shares on a pro-rata basis to the Company's shareholders on the register of members of the Company at the close of business on 17 January 2002.
- (g) All shares authorised or issued since incorporation rank pari passu in all respects.

## 15. RESERVES

	Share premium RMB'000	Merger reserve RMB'000	Statutory reserve fund RMB'000	Enterprise expansion reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2001	—	—	—	—	80,867	80,867
Profit for the period	—	—	—	—	30,171	30,171
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>111,038</u>	<u>111,038</u>
At 30 June 2001	—	—	—	—	111,038	111,038
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>111,038</u>	<u>111,038</u>
At 1 January 2002	—	41,527	10,081	10,081	72,171	133,860
Effect of the reorganisation	—	(106)	—	—	—	(106)
Premium on the issuance of shares through a public offer	144,160	—	—	—	—	144,160
Shares issue expenses	(16,418)	—	—	—	—	(16,418)
Capitalisation issue of shares	(31,686)	—	—	—	—	(31,686)
Profit for the period	—	—	—	—	57,916	57,916
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>57,916</u>	<u>57,916</u>
At 30 June 2002	96,056	41,421	10,081	10,081	130,087	287,726
	<u>96,056</u>	<u>41,421</u>	<u>10,081</u>	<u>10,081</u>	<u>130,087</u>	<u>287,726</u>



# Our Business

## 16. OPERATING LEASE COMMITMENTS

At 30 June 2002, the total future minimum lease payments under non-cancellable operating leases in respect of premises are payable as follows:

	<b>At 30 June 2002 RMB'000 (unaudited)</b>	At 31 December 2001 RMB'000 (audited)
Within 1 year	1,654	830
After 1 year but within 5 years	701	473
	<u>2,355</u>	<u>1,303</u>

## 17. CONTINGENT LIABILITIES

	<b>The Company At 30 June 2002 RMB'000 (unaudited)</b>	At 31 December 2001 RMB'000 (audited)
Guarantees given to a bank in respect of banking facilities utilised by the subsidiary	<u>7,000,000</u>	<u>—</u>

## 18. POST BALANCE SHEET EVENTS

The Group had aggregate banking facilities of approximately RMB41,500,000 (2001: RMB41,500,000) for bank loans, which were fully utilised. At the balance sheet date, the banking facilities of approximately RMB7,000,000 are secured by the Company, First Natural Foods Holdings Limited.

Subsequent to the balance sheet date, the remaining portion of banking facilities of approximately RMB34,500,000 have been replaced with the Company in July and September 2002, and thereafter released the obligations under the guarantee provided by Fuqing Longfu Forage Co., Ltd.





## FINANCIAL PERFORMANCE

For the six months ended 30 June, 2002, the Group recorded turnover of approximately RMB170,562,000, representing a strong growth of approximately 97% as compared to the same period in 2001. Net profit was approximately RMB57,916,000, representing substantial growth of approximately 92% as compared to the same period in 2001. The net profit margin was remained high at approximately 34% (2001 : 35%).

In response to the robust growth in the demand for frozen marine food and the Group's frozen marine food have been widely accepted by overseas customers, the Group enlarged production capacity and adjusted its sales strategy in frozen marine product. The Group was successfully gained four new customers in Japan which greatly increase the Group's turnover. In addition, the Group has taken full advantage of established supply chains to obtain the stable and high quality of raw materials. At the same time, the Group benefited from economic of scale of operations and the prices were relatively stable in the frozen marine market.

## BUSINESS ANALYSIS

Under the existing structure, the Group has three main business units, frozen marine products, frozen functional products and refrigerated processed meat products. The Group recognized the frozen marine products as the profitable area of our business and plenty of commercial opportunities for expansion. During the period under review, it was evident that the continuously increase in sales orders for frozen marine products were beyond the sales orders from frozen functional products. In addition, the Group had applied the funds raised earlier in the year to expand its production volume in frozen marine business.

For the six months ended 30 June 2002, the Group's gross profit margin was maintained at approximately 47.3% (2001: 45.6%), the increase of 1.7 percentage point was accounted by the proportion of turnover in business segments changed. Turnover for frozen marine products increased approximately 312% reaching approximately RMB106,465,000 as compared to the same period in 2001. It accounted for approximately 62% of the Group's total turnover, representing a predominant segment of the Group's total turnover. Turnover for frozen functional products was approximately RMB63,957,000, representing a growth of 7% as compared to the same period in 2001, and accounted for approximately 38% of total turnover. Turnover for refrigerated meat products reached approximately RMB140,000.

## GEOGRAPHICAL ANALYSIS

The Group's products are mainly exported to Japan and the US. As at 30 June 2002, the Japan market accounted for approximately 76% of the Group's turnover, posting a growth of approximately 90% as compared to the corresponding period in 2001. During the period under review, Japan recorded the most outstanding results. The four new customers from Japan improved the Group's sales to Japan to approximately RMB9,313,000 which contributing of approximately 5.5% to the Group's total turnover. While the US was the Group's second largest export market, accounted approximately 23% of the Group's turnover, posting a substantial increase in turnover of approximately 132% to approximately RMB 38,608,000 as a result of active market penetration. The PRC market shared the remaining 1% of turnover.



# Our Business

## BUSINESS REVIEW

### Offering more choices to customers

Through its customers, the Group's R&D professionals placed significant emphasis on keeping abreast of market trends in order to continuously improve the Group's existing products and to develop additional innovative products. In April 2002, the Group successfully launched two new products, frozen cooked baby clams with plum wine and frozen seasoned baby clams, into the Japan market. These new products have been widely welcomed by customers. As at the date of this report, the Group had signed long-term contracts for orders totaling 3,000 tons annually.

### Achieving superior quality processing

During the period under review, the Group maintained its stringent quality standards through introducing a new set of Ultraviolet C for large flow rate disinfection technology to ensure its product quality. These facilities are accepted on a worldwide basis and are used to inactivate pathogenic bacteria in water. The Group has been accrediting with the HACCP certificate since 1999. All production procedures and the control quality of raw materials are carried out in compliance with HACCP standards of the US and 中國出口水產品衛生註冊規範 (China's Registered Hygienic Standards for Exporting Marine Products). In May, 2002, the Group was the first shellfish processing plant visited by the FDA to examine the inspection requirements. The Group was successfully passed the examinations within one day.

### Expanding customer bases

Japan is the Group's largest export market. Its export volumes amounted to approximately 2,400 tons, for the period ended 30 June 2002 representing an increase of approximately 1,750 tons as compared to year 2001. The one-year contracts entered into between the Group and each of the four new customers resulted in substantial growth of the Group's revenue. Of these four new customers, two are large scale chain supermarkets in Japan, namely the KANETOKU CORPORATION and UOKI CORPORATION. On the other hand, the Group's sales to the US market reported accelerating growth, with export volume reaching approximately 1,800 tons, representing an increase of approximately 107% as compared to the same period in the year 2001.



## Employing advanced technology to maximize the production capabilities

During the period under review, the Group continued to upgrade its production facilities such as coolant facilities, water supply systems, and NCL Series of Closed Vessel Water Disinfection System and introducing a set of automated disinfection system. The Group installed two adjustable temperature equipment for storage. These storage facilities have the advantage adjustment of temperature for storage of products during the production process. A movable coolant was added to facilitate just-in-time storage for the finished goods. The Group replaced existing coolant storage to low temperature coolant storage. Overall, the Group increased its storage capacity for frozen marine products to 5,000 tons. The Group currently operates 7 automated production lines with total production volume amounting to approximately 4,900 tons. Among these 7 production lines, two are for frozen functional products, three for frozen marine products, one is for refrigerated meat products and the remainder is for frozen seasoned marine product. The Group's new development technologies and facilities together enhanced the Group's production capabilities, especially for frozen marine products, resulting in an aggregate production capacity of approximately 7,000 tons which represents an increase of approximately 75% as compared to the same period in 2001.

## PROSPECTS

The Group will continue to specialize in its frozen natural food business to meet ever-changing and growing needs from both domestic and international customers. In respect of the Group's performances and scale of operation, the Group is poised to become one of the largest frozen natural food enterprises in the PRC and competing the global frozen natural food market.

According to statistics in the US, after 9/11 attack the consumption of frozen food has increased by 35% as compared to the same figures in last year. Annual consumption volume reached approximately 63.6kg per capita.

Although Japan is now experiencing an economic downturn, it still recorded almost 20% frozen marine products sold which were produced in China. In the PRC, Morgan Stanley anticipates that GDP levels in the PRC will be growing at around 7% to 8% per annum. In view of the rapid economic development in the PRC, customers are putting more emphasis on healthy and nutritious eating habits contributing to an even greater demand for frozen natural food.

Based on those economic data, the Group has committed to have a series of strategies to forge ahead in the growing natural food market.

## Enlarging R&D investment

The Group has signed an agreement of intention with R&D units including Fuzhou Agriculture University, China Meat Food Research Centre in the PRC and Sanshu Shokken in Japan.

## Maintaining quality and controlling cost effectively

The Group is currently negotiating aqua culture farm lease where the superior quality and stable supplies of raw material can be sourced. As the Group intends to utilize the long terms rental arrangement and cooperate with farmers, thereby the high quality of raw material can be procured effectively. Certainly, this strategy affords the Group to have more competitive advantage.



# Our Business

## Enhancing “Longyu” brand awareness

Products with the Group’s own brand name “Longyu” is sold mainly in the PRC market. Benefiting from its export experiences and business relationships with the US and Japan, the Group plans to export its “Longyu” products to overseas markets. Having established its own brand name and successfully developed it into one of the most popular brands in frozen natural food, sales of the Group have grown together with market share. Building on this momentum, the Group intends to establish an office in the Group’s largest export market, Kobe, which will be responsible for obtaining market feedback and for promoting the “Longyu” brand.

During the period under review, the Group completed its market research on frozen marine food. Based on this study, the Group is well equipped and is ready to promote frozen marine food and frozen functional food, the Group has established a variety of sales and distribution channels which consist of: 1. Distribution centres in Fuzhou, Shanghai, Shenzhen and Northern and Western cities such as Beijing and Chongqing, to promote and demonstrate products as well as to enhance logistic arrangements and channels for customer feedback collection. 2. Strategic alliances with large supermarkets, convenience stores and domestic fast food enterprises. Such stable and developed sales network will help the Group’s rapid penetration into the various national markets in the PRC.

## Navigating new sales channels

The Korean market is the second largest export market for marine products from the PRC. The Group intends to introduce more special frozen functional food items such as Seven Star Eel fillet in the second half of the year. This will broaden the Group’s product categories, extend its source of income and increase its market share. The Group will also encourage direct sales with local importers to raise gross profit.

In the US market, the Group will launch new products according to market needs, raising sales and expanding market share. The Group has recently launched whole shell baby clams with pasta which was well received by the market. As at the date of report, the Group has received sales orders up to the end of 2002 which accounted approximately 500 tons.

## Enhancements in the pipeline

The Group also intends to improve its gross profit margin by implementing advanced monitoring systems and packaging facilities to reduce the reliance on human labour and lower raw material loss. In this respect, the Group will input automated machines to monitor the product weights and wastages in production. These efficient machines are expected the production capacity to increase by approximately 20% to 25%.

Looking forward, the Group will not only focus on overseas markets to expand its market share but also pursue the development of other potential markets including domestic sales in the PRC. The Group will also endeavor to introduce environmentally-friendly packaging in the future. These enhancements will help to enlarge market share, increase sales abilities and bring better returns to shareholders.



## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had solid financial position with cash and cash equivalents of RMB 169,031,000 as at 30 June 2002 as compared with RMB 39,002,000 for the same period in 2001.

The surplus cash position was resulted from the Group's net operating cash inflow of approximately RMB 65,428,000 as compared with RMB 21,666,000 for the same period in 2001. The Group recorded robust growth in export sales to Japan and US. Sales receipt from reputable customers was in line with the underlying sales for the period under review.

In addition, the Company issued 200,000,000 ordinary shares at HK\$0.73 per share by way of Placing and New Issue in February 2002 resulting in the net proceeds of approximately RMB136,500,000 (equivalent to HK\$130,000,000) after deducting related expenses.

There was no material change in level of bank borrowings since 31 December 2001. The Group had aggregate outstanding borrowings approximately RMB41,500,000 comprising secured short term bank loans approximately RMB34,500,000 which will be repayable within one year and a secured long term loan approximately RMB7,000,000 which will be repayable in November 2003.

As at 30 June 2002, the Group had banking facilities of approximately RMB7,000,000 are secured by corporate guarantee from the Company. The remaining banking facilities of approximately RMB34,500,000 originally guaranteed by Fuqing Longfu Forage Co., Ltd have been subsequently replaced with corporate guarantee provided by the Company in July and September 2002. Save for the above, the short term bank loans of approximately RMB 34,500,000 were charged at fixed rates from 6.435% to 6.7% per annum. The long term bank loan bears an interest at 7.11% per annum.

The gearing ratio is computed as interest bearing liabilities divided by total assets. As at 30 June 2002, the gearing ratio was 10% (2001: 20%).

With the financial resources available to the Group which included internal generated funds, banking facilities and the net proceeds from the Placing and New Issue, the Director considered that the Group has sufficient funding for the future capital commitment and authorization.

## USE OF LISTING PROCEEDS

For the six months ended 30 June 2002, the Group had applied part of the listing proceeds according to the following manner:

- Approximately RMB26,000,000 for expanding its production capacity for frozen marine products
- Approximately RMB21,000,000 for upgrading the production facilities
- Approximately RMB 2,000,000 for funding research and development of products

The remaining proceeds are placed on fixed deposits with licensed banks in both Hong Kong and PRC.



# Our Business

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Group did not engage any hedging to manage exchange rate fluctuations as the Directors consider that the cost associated with such hedging arrangements would exceed its benefits. The management will continue to monitor the foreign exchange exposure and will take prudence measure as deemed appropriate, if necessary.

## EMPLOYEES

As at 30 June 2002, the Group had approximately 494 employees compared with approximately 422 employees for the corresponding period in last year. The Group's employees were paid at fixed remuneration. Full-time staffs are qualified for other benefits including Hong Kong Mandatory Provident Fund and mandatory contribution to the state-sponsored retirement plan in PRC.

During the period under review, the total staff costs(excluding welfare cost) of the Group amounted to approximately RMB3,170,000 compared with approximately RMB1,655,000 for the corresponding period in 2001.

The Group has adopted a share option scheme on 17 January 2002. As at the date of this report, no options have been granted under the scheme.

The Group recognises the importance of its human resources to its success. Tailor-made training program relating to food processing industry are provided to staff in our PRC production plant. Annual health check is also mandatory for the Group's PRC staff as one of its key safety hazards control.

## SIGNIFICANT INVESTMENT AND ACQUISITION

During the period under review, the Group made no significant investment nor had it made any material acquisition or disposal of subsidiaries and associates.

## CHARGES ON ASSETS

As at 30 June 2002, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

## CONTINGENT LIABILITIES

As at 30 June 2002, the Company had the contingent liabilities amounting to approximately RMB7,000,000 in respect of the guarantee for the banking facilities granted to a subsidiary. Subsequent to 30 June 2002, the Company increased its exposure in respect of such banking facilities, pursuant to which its contingent liabilities increased to RMB41,500,000.



## DIRECTORS' INTEREST IN SECURITIES

As at 30 June, 2002, according to the register kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of the Company's Directors, Chief Executives and their associates in shares of the Company or any associated corporations (as defined in the SDI Ordinance) were as follows :

### The Company

Name	Personal Interest	Family Interest	Number of Shares		Other Interest	Total Interest
			Corporate Interest			
Yeung Chung Lung	—	—	390,000,000		—	390,000,000 (note)

Note : Held through Regal Splendid Limited which is wholly-owned by Mr.Yeung Chung Lung.

Save as disclosed above, none of the Directors, Chief Executives or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance and none of the Company's Directors, Chief Executives or their respective spouse, or children under 18 years of age were granted or had exercised any right to subscribe for shares or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at 30 June, 2002, so far as known to the Directors of the Company, the following persons (other than the Directors or Chief Executives of the Company whose interests are disclosed above) were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company :

Name of Shareholder	Number of Shares	% of issued share capital
Regal Splendid Limited (Note 1)	390,000,000	48.75%
Linacre Services Limited (Note 2)	126,000,000	15.75%

Notes :

1. Regal Splendid Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr.Yeung Chung Lung.
2. Linacre Services Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Lin Wan Qaing.



# Our Business

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 June, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 30 June, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **AUDIT COMMITTEE**

The Company established an audit committee on 17 January 2002 with written terms of reference in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules. ("the Listing Rules")

The audit committee comprises two independent Non-Executive Directors, namely, Mr. Tsui Chun Chung, Arthur and Mr. Lu Ze Jian. The audit committee has met twice since its establishment and has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June, 2002.

On behalf of the Board  
**Yeung Chung Lung**  
*Chairman*

Hong Kong, 24 September 2002

