

FINANCIAL PERFORMANCE

(All the analysis below is based on the results of the Group for the year ended 31 December 2002 and the year ended 31 December 2001 for comparison purpose only)



The year 2002 marked the first year after China's accession to the World Trade Organization (WTO). During the year, the Group grasped every opportunity to develop its natural frozen marine food and frozen functional food businesses with the aim to enhance its profitability and competitiveness. As a result, the Group made great progress during this year in product development and market expansion. For the year ended 31 December 2002, the Group recorded turnover of approximately RMB336,816,000, representing a growth of approximately 23% as compared with the corresponding period of last year. During the period under review, gross margin of the Group was approximately 46% as compared to approximately 47% for the year 2001. Profit attributable to shareholders rose from approximately RMB87,076,000 in 2001 to RMB108,698,000 in 2002, representing a growth rate of approximately 25%. Basic earnings per share also recorded approximately RMB14.0cents in the year 2002 compared with RMB14.5cents in the year 2001.

The Group's impressive results for the year ended 31 December 2002 were mainly attributable to: (1) the growing market demand for frozen marine food; (2) the adoption of an alliance operation mode by the Group which gave it a strong competitive edge; (3) the Group's focus on developing and promoting new marine food products with a higher margins which resulted in the successful results of new products with higher profitability; (4) the growing productivity of the Group; (5) the increasing number of end customers.

OPERATIONS REVIEW

Business analysis

The Group has three main food production divisions: frozen marine food, frozen functional food and refrigerated meat. Benefiting from stable prices, increasing demand and trust and support from the customers, frozen marine food recorded an impressive sales result of 7,600 tons with a turnover of approximately RMB209,525,000, representing approximately 62% of the Group's total turnover and a gross margin of approximately 49% for the period under review. Turnover for frozen functional food during the period under review totaled to approximately RMB127,134,000, representing approximately 38% of the Group's total turnover and a gross profit margin of approximately 41%. Finally, turnover for refrigerated meat accounted for an insignificant part of the Group's total turnover.

Geographical analysis

Japan and the US are the Group's largest market segments. In respect of the Japan market, the Group mainly relied on the co-operation with certain large-scale chain food supermarkets and restaurants, such as Maruha Corporation (the third largest seafood wholesaler in Japan), Niki Inc., Kanetoku Corporation, and Uoki Corporation. For the year ended 31 December 2002, sales to Japan reached approximately RMB249,488,000, which accounted for approximately 74% of the Group's total turnover and representing approximately 14% increase over that of 2001. Of the Group's total sales to Japan, the turnover of marine food products accounted for approximately RMB126,135,000 representing approximately 51% of total sales to Japan. Such sales of marine food products to Japan also recorded an increase of approximately 70% compared with the corresponding sales in 2001. During the first half of the year, the Group launched a number of new products namely seasoned baby clams, the sales of which accounted for approximately 7% of the Group's total turnover.



In respect of the US market, the Group established strategic alliances with Panapesca USA Corporation and Sysco Corporation, the second largest food distributor in the US. In addition, the Group entered into an agreement with Panapesca USA Corporation in October 2002 for supply of a total of approximately 10,000 tons of shellfish products for a 2-year period. For the year ended 31 December 2002, sales to the US market was amounted to approximately RMB83,326,000, representing approximately 25% of the Group's total turnover and an increase of approximately 63% increase as compared with that of 2001. The sales of marine food products entirely represented the Group's total sales to the US and recorded increase of approximately 69% as compared with the corresponding sales in 2001. The Group has launched various new products during the first half of the year, including whole shell baby clams with pasta, the aggregate amount of sales accounted for approximately 1% of the Group's total sales. The Group is expected to have much room for the market expansion.

In addition to the Japan and US markets, the Group has also succeeded in expanding into the Korean market in 2002. During the period under review, the Group established an alliance with Hanjin Trading Co. Ltd, a large trading company in Korea, with which the Group planned to go further along in the future. For the year ended 31 December 2002, sales to the Korea market represented approximately 0.3% of the Group's total turnover.





Accreditations evidenced product quality

The Group has dedicated its efforts in maintaining a high product quality and has always maintained strict product quality control. Therefore, the quality of the Group's products has been widely recognized. During the period under review, the Group's products passed the inspection of the US Food and Drug Administration, evidencing the Group's compliance with the US food-processing requirements.

In addition, the Group was accredited for the ISO9000 Certificate in 2002, signifying the higher level and scale of standardization of the Group's production procedures, and enhancing the confidence of the Group's customers as well as the end-consumers in its products.

Effective control over production costs and guaranteed quality of natural raw materials

To ensure consistent quality and prices of raw materials, the Group entered into a 20-year beach leasing agreement with the Sanshan People's Government, Fuqing, PRC for the establishment of a shellfish materials farming base of over 10,000 mu in Beiluo Village of Sanshan Town. The Group subcontracted the base to experienced local farmers for aquatic products farming and provided advice and assistance to the farmers. The Group estimates that approximately 50% of the raw materials for shellfish products can be obtained from this farming base. The establishment of the raw material base will contribute greatly to the stable growth of the Group's business and help the Group become the largest frozen marine food processor in PRC.

Raw material costs make up a considerable percentage in the Group's production costs for frozen natural food products. Regarding control over raw material prices, the Group adopted flexible measures including entering into long-term supply agreements with farmers to maintain a stable supply relationship. The Group has reviewed and renewed its long-term supply agreements with more than 30 suppliers. Given these arrangements, the Group is confident that adequate raw materials can be maintained for its production. Furthermore, the Group will enhance its product gross margin and profitability.



Allied with large-scale customers for overseas expansion

For the expansion of its international market, the Group principally adopts the strategy of establishing strategic alliances with large-scale customers to explore overseas markets. Under these alliances, the Group would focus principally on on-going product development and assurance of product quality and steady supply, while its strategic counterparts would focus on developing consumer bases with their brand names, well-established supply chain network and localization strengths.

The Group has entered into long-term supply agreements with these customers on preferential terms such as priority supply of new products locally developed, reasonable and consistent pricing etc. Leveraging on the establishment of strategic alliances with large-scale customers, the Group experienced an increase of approximately 20% in product sales in 2002 over that of the same period in 2001.

Setting up distribution centres to stretch the Group's sales network

In 2002, the Group set up distribution centres in Beijing and Fuzhou to distribute the Group's products through several trading companies with extensive sales networks. Sales and marketing activities in cities with diversified behaviours of consumption spending enabled the Group to identify its positioning in PRC product market and thus providing great momentum for the growth of the Company.



Enhancing publicity and intelligence

During the period under review, the Group engaged an advertising agency as the consultant to its overall image design and marketing planning, with an aim to enhance the Group's market analysis, advertising and image promotion. Second, the Group established offices in Beijing and Fuzhou in PRC and Kobe in Japan as its communication channels with its consumers for information collection and feedback for the Group's products sold in distribution centres. Third, the Group regularly participated in large food exhibitions to build up a sound corporate image and attract new customers in 2002. For example, the Group took part in the China Fisheries & Seafood Expo 2002 cum Aquaculture China 2002 (中國國際漁業博覽會暨中國國際水產養殖展覽會) in Qingdao in October. More importantly, the Group participated in International Food Processing Equipment Exhibition in Shanghai (國際食品加工設備展覽) in May and China International Food Processing and Packaging Equipment Exhibition (中國國際食品加工和食品包裝設備展覽會) in Beijing in August. Through these technology exhibitions, the Group was able to keep abreast of market updates and the latest food-processing technologies, thereby strengthened its packaging concept and exposed itself to other production technologies.

Tightening co-operation with technology research units to enrich product variety

In 2002, Sanshu Shokken Co., Ltd. of Japan conducted an in-depth survey on Japanese consumer preferences for the Group. Based on the survey findings, the Group launched a series of new seasoned products, such as cooked baby clams with plum wine and seasoned baby clams. At present, Sanshu Shokken Co., Ltd. of Japan is still working with the Group on the research and development of processed marine product line tailored to the Japanese consumers' preferences. Besides, the Group has associated with the Fuzhou Agriculture University on the research and development of ultraviolet film sterilization technology for functional food. The technology aims to prevent contamination of food product after packaging to ensure stable quality of the products.



Upgrading plant facilities to address the environmental consciousness

During the period under review, the Group enhanced its productivity through upgrading its aquatic products plant system facilities. The Group also renovated the ancillary facilities, such as building a sewage purified system and established a long-term maintenance agreement with the Fujian Newland Entech Co., Ltd. (福建新大陸環保科技有限公司).



PROSPECTS

With the uplifted pace of life, the frozen food industry has become one of the most thriving food industries around the world. The significant increase in the demand for frozen food has provided an opportunity for the Group's future growth. To capitalize on this opportunity, in addition to dedicating itself to improving existing product quality, the Group will also strive to develop new products to meet diversified market demands.

Application for EU registration to further geographical expansion

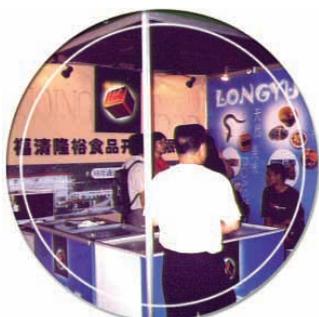
In view of the recent large increase in the demand for different frozen marine food products and seasoned marine food products in Europe, the Group applied for EU registration in February 2003, which is expected to be approved in the second half of 2003. As the Group has commenced negotiation with Panapesca Corporation, one of the existing customers of the Group headquartered in Italy, for the distribution of the Group's product via the sales network of Panapesca when the Group is granted with the EU registration.

Endeavouring to enhance publicity

The Group will continue to take an active part in different large international exhibitions in 2003, such as the US International Boston Seafood Show to be held in March 2003 and the Tenth HOFEX (2003) to be held in Hong Kong to enhance the Group's publicity and establish its brand name in order to explore new customers.

Adding products' variety. Adding profitability

Of the Group's current product variety of 109 types, approximately 24 are frozen marine food, approximately 30 are frozen functional food and the remaining are refrigerated meat. With its edge over its peers, the Group will keep on adjusting its product structure to maintain its prominent growth.



The Group plans to launch a series of UHT seafood products that can be kept under room temperature for more convenient storage. For the development of functional food products, the Group is in negotiation for the co-operation with a food research unit in the US to develop a series of

functional intermediate products which have the broad application in production of other finished food. The US food research unit had succeeded in developing a series of application products of enzymes and patented its inventions. With the inexpensive cost of the widely applicable intermediate products, it is expected that several types of intermediate products can be used in any downstream products like new medical care products and functional food.

Renovating of product packaging and building the Group's own brand name

The Group continues its effort in the innovation of product packaging with high quality, environmentally friendly packaging materials and new vacuum packaging bags. The Group plans to introduce sophisticated packaging equipment. The new packaging materials will allow a frozen food storage period of 3 to 5 times longer than the normal one, which can further enhance the Group's ability in exploring overseas markets and increasing product competitiveness. On the other hand, the Directors believe that a well-known brand name can boost customers' confidence in their purchases. Therefore, the Group will also endeavour to establish its own brand name, with the focus on its quality marine food products, and further to promote the Group's product image through advertising, product packaging and marketing strategies. With an established brand image, the Group's products will become more competitive in the market.



Increasing investment to underpin productivity

The Group will continue to upgrade some of its plant facilities, increase product lines and introduce other ancillary equipment such as the imported Charm II 7600 Analyzing System for antibiotics inspection. Besides, the Group plans to rent plants fit for production to further boost its productivity. The Group will undertake a plant extension scheme. The scheme will involve the construction of a development and testing centre and related plant facilities.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed the operations, capital commitment and authorization primarily through the internal generated funds, banking facilities and the net proceeds from the Placing and New Issue. As at 31 December 2002, the Group had banking facilities of approximately HK\$10,000,000 from a bank in Hong Kong and approximately RMB41,500,000 from a PRC bank. The utilised term loans were comprising approximately RMB34,500,000 charged at fixed rates from 6.435% to 6.7% per annum and approximately RMB7,000,000 charged at 7.11% per annum. All term loans are repayable within one year. Overall, the Group has a gearing ratio 9%. The gearing ratio is computed as interest bearing liabilities divided by total assets.



The Company issued 200,000,000 ordinary shares at HK\$0.73 per share by way of Placing and New Issue in February 2002. The net proceeds received approximately RMB138,000,000 (equivalent to approximately HK\$130,000,000) after deducting related expenses. As at 31 December 2002, the shareholder's equity totaled to approximately RMB380,908,000.

As at 31 December 2002, the Group had cash and cash equivalents of approximately RMB258,453,000 (equivalent to approximately HK\$243,824,000). The Group had deposited the money in banks in PRC and licensed banks in Hong Kong.

Use of Listing Proceeds

For the year ended 31 December 2002, the Group had applied part of the listing proceeds according to

- Approximately RMB26,000,000 for expanding its production capacity for frozen marine food products
- Approximately RMB22,000,000 for upgrading the production facilities
- Approximately RMB10,000,000 for implementing new & high value packaging technologies
- Approximately RMB1,000,000 for funding research and development of products

The unused proceeds are still placed on fixed deposits with banks in Hong Kong and PRC.

Employees and Remuneration Policy

As at 31 December 2002, the Group had approximately 494 employees compared with approximately 422 employees for the year ended in 2001. The Group's employees were paid at fixed remuneration. Full-time staff in Hong Kong office qualified for Hong Kong Mandatory Provident Fund and staff in PRC wholly owned subsidiary are vested the Group's contribution to the state sponsored retirement plan.

During the period under review, the staff costs of the Group totaled approximately RMB17,713,000 compared with approximately RMB8,664,000 for the year ended 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.



Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2002, the Group conducted its business transactions principally in US dollars and Renminbi. The Group had not experienced any material difficulties or negative effects on its operations as a result of fluctuations in currency exchanges rates. The Directors believe it was not necessary to hedge the exchange risk. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudence measure as deemed appropriate.



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.

Capital Commitment

As at 31 December 2002, the Group's commitments in respect of assets acquisition disclosed in note 28 to the financial statements.

Charges on Assets

As at 31 December 2002, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2002, the Group had the contingent liabilities disclosed in note 29 to the financial statements.

