Interim Report 2003




FIRST NATURAL FOODS

HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

2003 Milestone:

- Turnover recorded approximately **RMB210M**, 23% increase over the corresponding period in 2002.
- Profit from operations recorded approximately **RMB90M**, 31% increase over the corresponding period in 2002. The results confirmed the Group is on the right track to grow its business.
- Financial health with high liquidity assets. Net cash totaled approximately **RMB236M**.
- Licensed to access the Euro market.
- World-class quality food processing platform to prepare unmatched product.
- Sharing the success with the strategic partners.

Condensed Financial Statements

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 (collectively, the "Group") for the six months ended 30 June 2003 together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

	Note	For the six months ended 30 June 2003 RMB'000 (unaudited)	2002 RMB'000 (unaudited)
Turnover	2	**209,745**	170,562
Cost of sales		**(110,576)**	(89,875)
Gross profit		**99,169**	80,687
Other revenue	4	**660**	519
Distribution costs		**(1,132)**	(3,233)
Administrative expenses		**(6,332)**	(6,939)
Other operating expenses		**(2,122)**	(2,353)
Profit from operations		**90,243**	68,681
Finance costs	5(a)	**(8,683)**	(2,002)
Profit from ordinary activities before taxation	5	**81,560**	66,679
Taxation	6(a)	**(22,590)**	(8,763)
Profit attributable to shareholders		**58,970**	57,916
Dividends	7	**25,440**	Nil
Earnings per share — Basic	8(a)	**RMB7.37 cents**	RMB7.67 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2003

	Note	At 30 June 2003 RMB'000 (unaudited)	At 31 December 2002 RMB'000 (audited)
NON-CURRENT ASSETS			
Fixed assets	9	**120,133**	116,834
Deposit for acquisition of fixed assets		**—**	5,300
Prepaid rentals		**11,633**	14,733
		131,766	136,867
CURRENT ASSETS			
Inventories	10	**7,982**	9,850
Trade and other receivables	11	**101,589**	48,268
Cash and cash equivalents		**324,482**	258,453
		434,053	316,571
CURRENT LIABILITIES			
Trade and other payables	12	**16,768**	8,501
Bank loans		**46,800**	41,500
Taxation	6(b)	**31,522**	7,348
Provision for staff welfare benefit		**15,110**	15,181
		110,200	72,530
NET CURRENT ASSETS		**323,853**	244,041
TOTAL ASSETS LESS CURRENT LIABILITIES		**455,619**	380,908
NON-CURRENT LIABILITIES			
Bank loans		**3,975**	—
Coupon bond	13	**37,206**	—
		41,181	—
NET ASSETS		**414,438**	380,908
CAPITAL AND RESERVES			
Share capital	14	**42,400**	42,400
Reserves	15	**372,038**	338,508
		414,438	380,908

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003

	For the six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash inflow from operating activities	**58,360**	65,428
Net cash inflow/(outflow) from investing activities	**29,340**	(53,985)
Net cash inflow from financing activities	**10,129**	133,533
Increase in cash and cash equivalents	**97,829**	144,976
Cash and cash equivalent at 1 January	**226,653**	24,055
Cash and cash equivalent at 30 June	**324,482**	169,031

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003

	For the six months ended 30 June 2003		For the six months ended 30 June 2002	
	RMB'000 (unaudited)	**RMB'000 (unaudited)**	RMB'000 (unaudited)	RMB'000 (unaudited)
Shareholders' equity at 1 January		**380,908**		133,868
Net losses not recognised in the income statement				
— shares issuance expenses		**—**		(16,418)
Net profit for the period		**58,970**		57,916
Dividend paid		**(25,440)**		—
Movement in share capital:				
— Shares issued	**—**		154,866	
— Reorganisation adjustment	**—**		(106)	
Net increase in shareholders' equity arising from capital transactions with shareholders		**—**		154,760
Shareholders' equity at 30 June		**414,438**		330,126

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The unaudited interim financial report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31

December 2002 are available from the Stock Exchange's website. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 April 2003.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report except as disclosed under 1(b) and 1(c).

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2002 annual financial statements.

(b) Adoption of new accounting standards in Hong Kong

The new SSAP 12 (revised), Income Tax, issued by the HKSA, which became effective for accounting period beginning on or after 1 January 2003, was adopted for preparation of the Group's financial statements for the six months ended 30 June 2003.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exception. The adoption of this SSAP 12 (revised) has had no significant effect on the group's current and prior year financial statements. Accordingly no prior period adjustment is required.

(c) The following accounting policy for "Income tax" have been adopted by the Group for the six months ended 30 June 2003:

(i) Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. 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.

3. 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		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**132,039**	106,465	**77,706**	63,957	**—**	140	**209,745**	170,562
Segment result	**64,505**	54,104	**34,664**	26,556	**—**	27	**99,169**	80,687
Unallocated operating income and expenses							**(8,926)**	(12,006)
Profit from operations							**90,243**	68,681
Finance costs							**(8,683)**	(2,002)
Taxation							**(22,590)**	(8,763)
Profit attributable to shareholders							**58,970**	57,916

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)							
	Japan		United States of America		PRC		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**140,659**	129,784	**69,086**	38,608	**—**	2,170	**209,745**	170,562

4. OTHER REVENUE

	For the six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Subsidy income*	**135**	260
Interest income from banks	**525**	259
	660	519

* 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.

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	For the six months ended 30 June 2003 RMB'000 (unaudited)	2002 RMB'000 (unaudited)
(a) Finance costs		
Interest on borrowings wholly repayable within five years		
— bank loans	**1,314**	2,002
— coupon bond	**233**	—
Costs related to the issue of coupon bond	**7,136**	—
	8,683	2,002
(b) Other items		
Cost of inventories#	**110,576**	89,875
Staff costs#	**4,322**	3,170
Depreciation of fixed assets#	**4,986**	3,732
Operating lease charges in respect of premises	**3,789**	454
Provision for bad and doubtful debts	**2,000**	1,698

Cost of inventories includes staff costs of approximately RMB2,342,000 (2002: RMB1,617,000) and depreciation expenses of approximately RMB4,276,000 (2002: RMB3,204,000) that have also been included in the respective total amounts disclosed separately above.

6. TAXATION

(a) Taxation in the condensed consolidated income statement represents:

	For the six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC enterprise income tax	**22,590**	8,763

Note:

(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 form Hong Kong. (2002:Nil)

(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 six months ended 30 June 2003 presented was at the rate of 24% (2002: 12%) on the estimated assessable profit.

(iii) Deferred taxation

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

(b) Taxation in the consolidated balance sheet represents:

	At 30 June 2003 RMB'000 (unaudited)	At 31 December 2002 RMB'000 (audited)
PRC enterprise income tax	**14,447**	3,822
PRC value-added tax	**13,549**	—
PRC urban real estate tax	**3,526**	3,526
	31,522	7,348

7. DIVIDENDS

(a) The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

(b) Dividend attributable to the financial year ended 31 December 2002, approved and paid during the period.

	For the six months ended 30 June	
	2003 RMB'000 (unaudited)	2002 RMB'000 (unaudited)
Final dividend paid HK$0.03 (equivalent to approximately RMB0.0318) per share (2002:Nil)	**25,440**	Nil

8. EARNINGS PER SHARE

(a) Basic earnings per share

The computation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB58,970,000 (2002: RMB57,916,000) and the weighted average of 800,000,000 ordinary shares (2002: 754,696,000) 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 2003 (2002: Nil).

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding warrants as the exercise prices of those warrants are higher than the average market prices of the Company's shares for the period ended 30 June 2003.

9. ADDITION TO FIXED ASSETS

During the period, the Group spent approximately RMB615,000 (six months ended 30 June 2002: RMB706,000) on the acquisition of furniture and equipment, motor vehicles and construction in progress and approximately RMB7,670,000 (six months ended 30 June 2002: RMB21,738,000) on the acquisition of manufacturing plant and machinery in PRC in order to enlarge the Group's production capacities respectively.

10. INVENTORIES

	At 30 June 2003 RMB'000 (unaudited)	At 31 December 2002 RMB'000 (audited)
Raw materials	**2,815**	568
Finished goods	**6,550**	10,665
	9,365	11,233
Less: Provision for obsolete and slow moving Inventories	**(1,383)**	(1,383)
	7,982	9,850

There were no inventories carried at net realizable value as at 30 June 2003 and 31 December 2002.

11. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2003 RMB'000 (unaudited)	At 31 December 2002 RMB'000 (audited)
0 to 1 month	**61,762**	27,705
1 to 3 months	**41,368**	19,351
	103,130	47,056
Less: General provision for bad and doubtful debts	**(4,356)**	(2,356)
Trade receivables, net	**98,774**	44,700
Other receivables, deposits and prepayments	**2,815**	3,568
	101,589	48,268

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.

12. TRADE AND OTHER PAYABLES

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

	At 30 June 2003 RMB'000 (unaudited)	At 31 December 2002 RMB'000 (audited)
Due within 1 month or on demand	**12,315**	849
Due after 1 month but within 3 months	**682**	553
Due after 3 months but within 6 months	**72**	86
Due after 6 months	**33**	92
Total trade payables	**13,102**	1,580
Accruals and other payables	**1,469**	2,262
Due to a director	**2,197**	4,659
	16,768	8,501

13. COUPON BOND

The company entered into three private placement subscription agreements on 28 March 2003 in respect of the placement of 2.5% coupon bond due on 9 April 2008 with warrants attached, having an aggregate principal amount of US$4,500,000 (equivalent to approximately RMB37,206,000). Bondholders can exercise the subscription rights attaching to the warrants, in whole or part, at any time commencing from 10 April 2003 to 9 April 2008 (both days inclusive) to subscribe for new shares of the Company at an initial exercise price. The exercise price will be adjusted on every 6 month interval based on the mechanism set out under the heading of "Adjustment of the subscription price" of the Company's announcement dated 10 April 2003. The net proceeds of approximately RMB32,000,000 were used to finance the working capital needs of (i) the lease of new aqua-culture farmland for the supply of raw materials; and (ii) the expansion of modification of the Group's existing processing food platform facilities.

14. SHARE CAPITAL

	At 30 June 2003 RMB'000 (unaudited)	At 31 December 2002 RMB'000 (audited)
Authorised:		
2,000,000,000 ordinary shares of HK$0.05 (equivalent to RMB0.053) each	**106,000**	106,000
Issued and fully paid:		
800,000,000 ordinary shares of HK$0.05 (equivalent to RMB0.053) each	**42,400**	42,400

During the period, there were no changes in the Company's authorised and issued share capital.

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 2002	—	41,527	10,081	10,081	72,171	133,860
Effect of the reorganization	—	(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
At 30 June 2002 (unaudited)	96,056	41,421	10,081	10,081	130,087	287,726
At 1 January 2003	96,056	41,421	20,767	10,081	170,183	338,508
Profit for the period	—	—	—	—	58,970	58,970
Dividend paid	—	—	—	—	(25,440)	(25,440)
At 30 June 2003 (unaudited)	96,056	41,421	20,767	10,081	203,713	372,038

16. COMMITMENTS

(a) Capital commitments outstanding at 30 June 2003 not provided for in the financial statements were as follows:

	At 30 June 2003 RMB'000 (unaudited)	At 31 December 2002 RMB'000 (audited)
Contracted for:		
— Construction of buildings	**17,500**	—
— Acquisition of fixed assets	**—**	2,240
— Research and development project	**—**	600
	17,500	2,840

(b) At 30 June 2003, the total future minimum lease payments under non-cancellable operating leases in respect of premises are payable as follows:

	At 30 June 2003 RMB'000 (unaudited)	At 31 December 2002 RMB'000 (audited)
Within 1 year	**638**	1,130
After 1 year but within 5 years	**24,000**	24,207
After 5 year	**84,000**	84,000
	108,638	109,337

17. CONTINGENT LIABILITIES

At 30 June 2003, there were contingent liabilities in respect of the following:

— Bank loan facilities utilised by a third party and guaranteed by a wholly owned subsidiary amounting to RMB5,000,000 (At December 2002: RMB5,000,000)

— Bank loan facilities utilised by a wholly owned subsidiary and guaranteed by the Company amounting to RMB41,500,000 (At December 2002: RMB41,500,000)

— Bank loan facilities utilised by the Company and guaranteed by a wholly owned subsidiary amounting to RMB9,275,000 (At December 2002: Bank loan facilities of RMB10,600,000 obtained and not utilised by the Company)

FINANCIAL PERFORMANCE

For the six months ended 30 June 2003, the Group achieved an impressive growth and recorded a turnover of approximately RMB209,745,000, representing an increase of 23% as compared to the same period in 2002. The result of operations was also recorded high. The profit from operations was recorded approximately RMB90,243,000 representing a surge of approximately 31% over the same period in 2002. Net profit was approximately RMB58,970,000, representing a slight increase of approximately 2% as compared to the corresponding period in 2002. The slight increase in the net profit was mainly due to the PRC preferential treatment of halving the normal rate was finished in the year ended 31 December 2002. For the period under review, the enterprise income tax had accounted based on normal income tax rate.

BUSINESS ANALYSIS

The half-yearly result for frozen marine products was very encouraging. This result confirmed the Group's aspiration on frozen marine food prospect. During the period under review, the Group found that the increases in sales orders on frozen marine food products were matching to its growth on production capacity. Indeed, the Group's sales orders on frozen marine food products have been continuing to increase for the second consecutive year. For the six months ended 30 June 2003, the turnover from frozen marine food products recorded approximately RMB132,039,000, with an increase of approximately 24% over the last corresponding period, contributing approximately 63% of the total turnover. The turnover of frozen functional food products was approximately RMB77,706,000, accounting for 37% of total turnover.

GEOGRAPHICAL ANALYSIS

The Group's products were mainly exported to Japan and the US. Japan was still the largest export market of the Group and contributed the highest sales amount with the continuous marketing attempt. As at 30 June 2003, the Japan market accounted for approximately 67% of the total turnover and reached approximately RMB140,659,000 representing a growth of approximately 8% as compared to the corresponding period in 2002. The second largest export market went to the US and accounted for approximately 33% over the total turnover and recorded approximately

RMB69,086,000, representing a significant increase of approximately 79% as compared with the same period in 2002. It was the result of the sales orders triggered from the two-year sales agreement jointly with PANAPESCA USA CORPORATION and SYSCO CORPORATION which directly boosted the sales in the US.

BUSINESS REVIEW

Integrated world-class quality control

The outbreak of Severe Acute Respiratory Syndrome (``SARS'') brought two important concepts for businesses — hygiene and contingency management. The compliance of ISO9000 quality management system together with the HACCP regulation both guarantee the hygienic standard of food processing. To further minimize the impact of SARS, the Group has also reinforced the daily monitoring of the workers' hygiene by increasing the frequency for sterilization of the plant and tools. In respect of risk management, the Group carried out a series of quarantine measures for visitors to enter to production plant.

During the period under review, an important milestone for the Group was the first food processor in Fujian province achieved EU registration. The Group has passed a series of strict and meticulous inspections in every stage of the food processing which attested to its high product quality. After that, the Group has been integrating the three quality control systems simultaneously.

Value-added activities delivered more business

In addition to the quality control implementation, the Group also emphasis on the introduction of new professional packaging technology. For this reason, since 2002 the Group was associated with the Fuzhou Agriculture University in the development of ultraviolet film sterilization technology. The project was eventually completed and passed the trial run during the period under review. This technology was largely applied for the functional food and frozen natural marine food.

During the period under review, the Group successfully passed the evaluation from NSF COOK & THURBER, a leading appraisal on comprehensive food safety services, which was appointed by SYSCO

CORPORATION. As a result, the Group has received further orders from SYSCO Corporation on the newly launched products such as peeled clam meat with juice and flying fish roes.

Reaching world-class quality

In food processing business, the first and foremost step is using high quality, unpolluted raw material. The Group has acquired an imported CHARM II 7600 Analyzing System for antibiotics inspection. All these advanced equipment enables the Group's management to monitor the water quality and the aqua farm environment. In view of the epidemic and WTO members adopted of technical barrier to trade agreement, the Group recognized that the superlative product quality is a key solution for those challenges.

Prepared innovative products

The Group's existing culinary research center comprises two individual teams. Each team has 4-5 officers, whom are responsible for the research and development of frozen marine food and frozen functional food respectively. During the period under review, the Group was undertaking marketing research and integrated the market information from clients and professional food expertise.

Having obtained the international and domestic data, the Group could identify the emerging trends of the food consumption. The Group has launched a series of UHT seafood pasta products, flying fish roes for sushi and other new healthy products. The Group intends to export the popular products to the US and the Euro market.

PROSPECTS

Unmatched products to enter to Euro market

In the Group's sales plan for the second half of 2003, the Group will choose the frozen octopus and squids products to enter into the Euro market. Based on tentative mandate from the customers, the Group is aware that plenty of resources of high quality squids in Fujian coastal region and which are sufficient to meet the prospective sales order from European customers. In view of the growing needs of healthy seafood, the Group will try to develop a variety of low-calorie products to serve its customer's needs.

Leveraging on the vast experience gained from the successful market expansion in Japan and the US, the Group has established strategic partnership with PANAPESCA SPA, based in Italy. This move represents that we shared a common goal of capturing the Euro market share more effectively.

The Group has received the first sales order from strategic partner for the launch of UHT seafood pasta to Europe in the coming October. Therefore, the Group is expecting a win-win opportunity to be shared with the strategic partners.

Exciting opportunities in Japan

Since the market for marine product in Japan is so fragmented, the Group will continue to grasp the opportunity for expansion. The Group has entered a mandate with two sizeable trading companies, named PACIFIC TRADING CO. LTD, and KDM CO. LTD. The annual sales will be accounting for 2000 tons of frozen functional food and frozen marine food.

Upgrading production capabilities

In conjunction to the increase in Group's sales, the Group intends to invest RMB6 million for the enlargement of the existing frozen marine product production plants and spend approximately RMB10 million for the installation of new production facilities, such as shellfish purifying facilities, single plane freezer, etc.

Furthermore, the construction of an integrated new research and development center has commenced in June 2003. The center is expected to be completed and commenced operation in early 2004. The objective of the center is to significantly upgrade the research and development capabilities, shorten the research cycle and facilitate product innovation.

Strengthening supply chain

Currently, the Group has leased an aqua farm cultivating shellfish and baby clam. The Group has used the high quality raw material from the aqua farm and paying at reasonable cost for its production. Through this type of lease arrangement of aqua farm, the Group could control the cost of raw material and minimize the risk arising from the loss of raw materials in the aqua farm.

Therefore, the Group plans to establish another aqua farm specializing in the cultivation of octopus with long tentacles and tubular squid. The Group also expects that 50% of raw material for newly launched products to be sourced from the new aqua farm. In the long term, the Group anticipates the advantages of the establishment of aqua farm are the supply of raw material to be secured and better managed the level of raw material for its production.

Paving the way for the PRC market

It is popular in the PRC that both authority and consumers are embraced the green and safe concept regarding all kinds of food. During the period under review, the Group obtained the "green food" certification, and plans to launch a range of processing products in the PRC market. The Group has also started to liaise with a large scale of supermarket and chains of retail stores in respect of the forms of business and the relevant terms of business. In the long run, the Group is confident of making profitability in the PRC market.

GROUP'S LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2003, the Groups' total borrowings were approximately RMB87,981,000 of which banks borrowings amounted to approximately RMB50,775,000 and coupon bond was approximately RMB37,206,000.

As at 30 June 2003 the Group had outstanding bank loans comprised approximately RMB9,275,000 (HK$8,750,000 equivalent) from a Hong Kong licensed bank and approximately RMB41,500,000 from a PRC bank respectively.

The term loan from a Hong Kong licensed bank was subject to floating rate at 2.75% per annum over 3-month HIBOR rate. The PRC term loan were charged at fixed rates from 5.544% to 5.925% per annum.

During the period under review, the Group issued US$4,500,000 coupon bond with warrants attached. The issue of the coupon bond will be divided into 4 tranches. Each "A Bond" and "B Bond" will be in the value of US$1,350,000 while the "C Bond" and "D Bond" will be in the value of US$900,000 respectively. The coupon bond was charged at fixed rate of 2.5% per annum and payable annually in arrears from the date of issue.

The maturity profile for the Group's borrowing was as follows:

Within one year	53%
After 1year but within 5 years	47%

The Group maintained a gearing ratio approximately 16%. The ratio was computed as interest bearing liabilities divided by total assets.

The Directors believe that the Group's strong liquidity position and banking facilities available are sufficient to finance its operations, capital commitment and authorization.

TREASURY POLICY

As 30 June 2003, the Group had cash and cash equivalents of approximately RMB324,482,000 (equivalent to HK$306,115,000). The Group deposited the money in banks in the PRC and licensed banks in Hong Kong.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

For the period ended 30 June 2003, 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 exchange 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 prudent measures as deemed appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2003, the Group had approximately 520 employees compared with approximately 494 employees for the year ended 31 December 2002. The Group's employees were paid at fixed remuneration. Full-time staff in Hong Kong office are qualified for Hong Kong Mandatory Provident Fund and staff in the PRC wholly 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 RMB4,322,000 compared with approximately RMB3,170,000 for the period ended 30 June 2002.

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.

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 30 June 2003, the Group's commitments in respect of assets acquisition as described in note 16(a) to financial statements.

Charges on Assets

As at 30 June 2003, the Group had not pledged any asset to its bankers to secure banking facilities.

Contingent Liabilities

As at 30 June 2003, the Group had the contingent liabilities as described in note 17 to the financial statements.

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules were as follows:

Long position in the Company's share

Name of Directors	**Capacity**	**Type of interests**	**Number of shares**	**% of the issued share capital**
Yeung Chung Lung	Interest of a controlled corporation	Corporate	390,000,000 *(Note)*	48.75%
Ye Xiu Hua	Interest of spouse and a controlled corporation	Family and corporate	390,000,000 *(Note)*	48.75%

Note: The 390,000,000 shares are owned by Regal Splendid Limited, a company which is wholly-owned by Mr. Yeung Chung Lung. By virtue of the SFO, Mr. Yeung Chung Lung and his spouse Ms. Ye Xiu Hua are taken to be interested in these 390,000,000 shares.

Saved as disclosed above, as at 30 June 2003, none of the Directors nor the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Directors or chief executives of the Company, as at 30 June 2003,other than the interests and short positions of the Directors or chief executives of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in the Company's share

Name	Notes	Capacity	Type of interests	Number of shares	Approximate percentage of holding
Regal Splendid Limited		Beneficial owner	Corporate	390,000,000	48.75%
Value Partners Limited	1	Investment manager	Corporate	64,860,000	8.11%
Cheah Cheng Hye	2b	Beneficial owner	Personal	1,100,000	0.14%
	2a	Interest of spouse	Family	300,000	0.04%
	1	Interest of a controlled corporation	Corporate	64,860,000	8.11%
To Hau Yin	2a	Beneficial owner	Personal	300,000	0.04%
	1	Interest of spouse and a controlled corporation	Family and Corporate	64,860,000	8.11%
	2b	Interest of spouse	Family	1,100,000	0.14%
Wisdom Latch Limited	3	Beneficial owner	Corporate	62,820,000	7.85%
Tung Fai	3	Interest of a controlled corporation	Corporate	62,820,000	7.85%
Kwok Kin Kwok	3	Interest of spouse and a controlled corporation	Family and Corporate	62,820,000	7.85%

Notes:

1. Mr. Cheah Cheng Hye holds 32.53% of the shareholding of Value Partners Limited. By virtue of the SFO, Mr. Cheah Cheng Hye and his spouse Ms. To Yau Yin are taken to be interested in these 64,860,000 shares held by Value Partners Limited.

2a Ms. To Yau Yin is the spouse of Mr. Cheah Cheng Hye. By virtue of the SFO, Mr. Cheah Cheng Hye is taken to be interested in these 300,000 shares held by Ms. To Yau Yin.

2b Mr. Cheah Cheng Hye is the spouse of Ms. To Yau Yin. By virtue of the SFO, Ms. To Yau Yin is taken to be interested in these 1,100,000 shares held by Mr. Cheah Cheng Hye.

3. The entire issued share capital of Wisdom Latch Limited is beneficially owned by Mr. Tung Fai. By virtue of the SFO, Mr. Tung Fai and his spouse Ms. Kwok Kin Kwok are taken to be interested in these 62,820,000 shares held by Wisdom Latch Limited.

Saved as disclosed above, as at 30 June 2003, the Company has not been notified by any persons (other than the Directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the date of listing of the Company's shares, except that the independent non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

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.

Management Discussion and Analysis

The audit committee comprises two independent non-executive directors, namely, Mr. Tsui Chun Chung, Arthur and Mr. Lu Ze Jian. The audit committee 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 2003.

By the order of the Board
Yeung Chung Lung
Chairman

Hong Kong, 18 September 2003