

Financial Review

(All the analysis below is based on the results of the Group for the year ended 31 December 2003 and the year ended 31 December 2002 for comparison purpose only)

For the year ended 31 December 2003, the Group recorded a turnover of approximately RMB378,378,000 (2002: RMB336,816,000), representing a growth of approximately 12% as compared to the last year. The increase of turnover was mainly attributable to the continuous growth of sales orders of frozen marine foods and the successful penetration of the newly developed high end products namely flying fish roe products into markets.

During the year under review, the gross profit of the Group was approximately RMB184,276,000, representing an increase of approximately 20% as compared to the last year. The increase of gross profit was due to the effective cost control on raw materials and the development of high profit margin products.

The profit attributable to shareholders during the year under review was RMB110,457,000 (2002: RMB108,698,000), representing an increase of 1.7% as compared to the last year.

Turnover and market share of the Group were able to reach a new historic height. The key factors were as follows: (1) a rapid surge in the global demand for marine foods in the PRC. The PRC export of marine foods has been recorded an average annual growth rate of 10% or above; (2) the strong demands for marine foods lead to the general pricing of the Group's frozen marine products relatively higher; (3) implementing effective management control in respect of the expansion of production capacity; (4) the Group's leading position in products' development in the industry; (5) performing quality control over the norm in the PRC; and (6) stabilizing the supply of raw materials and achieving an effective cost control.

Leveraged on the efforts in the previous years, the Group has established a strong customer base and built up satisfactory market share. The Group's management firmly anticipated that the sustainable growth of the frozen marine foods market would be an important momentum for its business growth.

Business Analysis

A prominent growth on frozen marine foods segment was recorded in 2003. The sales of the frozen marine foods reached approximately 9,100 tonnes and the turnover was approximately RMB249,275,000, accounting for approximately 66% of the Group's total turnover. The gross profit margin was approximately 50%.



The turnover of frozen functional foods recorded RMB128,992,000, accounting for approximately 34% of the Group's total turnover. The gross profit margin was approximately 47%.

The Group has continued its business of refrigerated meat products. However, the contribution of this product to the Group's turnover was insignificant.

Geographical Analysis

Japan and the US markets are still the Group's major customers. In terms of the sales values and quantities, Japan is the largest export market segment of the Group. For the year ended 31 December 2003, the turnover attributable to Japan market reached approximately RMB274,028,000, representing approximately 72% of the Group's total turnover and an approximately 10% increase as compared to 2002. In general, major Japanese customers continuously increased their sales order during the year under review. For example, Maruha Corporation recorded the highest sales in sixth year row and a new Japanese customer, Pacific Trading Co. Ltd., was involved into numerous of bulky transactions. The turnovers of frozen marine foods and frozen functional foods were approximately RMB145,312,000 and RMB128,716,000 respectively, accounting for approximately 38% and 34% of the Group's total turnover, representing an increase of approximately 15% and 5% as compared to the last year respectively.

The US is the second largest export market segment of the Group. The Group's sales to the US was increased significantly simply because of its strategic business partners namely PANAPESCA USA CORPORATION and SYSCO CORPORATION whom had entered a two-year sales agreements with the Group in late 2002. The first year turnover was recorded approximately RMB103,934,000, accounting for approximately 28% of the Group's total turnover and representing approximately 25% increase as compared to 2002.



Business Review

Surging demand for marine foods from the PRC

The Group's sales volume increased by 14% as compared to the last year. The sales attributable to the exports to Japan and the US markets increased by 10% and 25% respectively.

According to the China Custom statistics, the export volume of marine foods reached approximately 2.1 million tonnes and the value of which reached approximately US\$5.49 billion in 2003, representing an increase of 17% as compared to the last year. It is anticipated that the future demand for marine foods from developed countries will accelerate, contributing a positive effect to the further expansion and development of marine foods industry in the PRC.

In 2003, the export volume of marine foods from the PRC to Japan, Korea, the US and the EU, in terms of percentage of total export volume, accounted for 39.8%, 13.8%, 18.6% and 9.1% respectively. In sum, the total export volume to the four regions accounted for 81.3% of the total export of marine foods. The actual volume of marine foods exported to Japan, the US and the EU were approximately 566,000 tonnes, 288,000 tonnes and 185,000 tonnes respectively for the period from January to November 2003.

Given these statistical data, it shows the dynamics of marine foods in the PRC and the Group has already attuned the market opportunities and achieved the growth performance successively. The Group has implemented the following measures to improve the flow of operations and to sharpen its competitiveness.

High quality raw materials assurance programs

As a large scale and reliable food processor in China, the Group highly concerns the importance of the quality of raw materials. For this reason, the Group's technical staffs undertook on-site inspection regularly. These assurance programs cover cultivation, management and catching processes at the aqua farms. The objective is to ensure and raise the product's quality. The Sanshan aqua farm of the Group commenced its supply in October 2003 and provided the Group with approximately over 800 tonnes quality raw materials in 2003. The Group's purchasing policy on raw materials is to source at the origin of raw materials supply. The major advantages of this policy are purchasing at a price lower than the market price and obtaining specified qualities of raw materials. The superior quality of raw materials also enhanced the output rate.

In October 2003, the Group leased an aqua farm with an area of approximately 10,000 mu as another source of raw materials in the Bei Hai City, Guangxi Province. In the light of the variations on products demand, the Group could flexibly adjust the mix of raw materials produced from the two bases.

The existing Sanshan aqua farm is mainly supplying hard shell clams and baby clams. The Group's management has determined to source wide varieties of raw materials from Bei Hai aqua farm such as hard-shell clams, Paphia undulate and octopus in the future.

Systematic and scientific mass production

Leveraged on its extensive experience of expanding its business in the overseas markets, the Group recognized that food safety is the prime concern to overseas customers. Therefore, during the year under review, the Group's research team proactively developed a new technique on purifying shellfish. By controlling temperature and time flexibly, the efficiency of purification could be increased by about 30%. It was also expected that the overall output of purified shellfish could be increased to approximately 3,000 tonnes annually.

Besides, the Group had installed two advanced chromatographies, one in grilled eel production line and one in aqua product processing line. The high performance liquid chromatography equipped with the most advanced fluorescence detector and a high precision microprocessor. It is able to conduct trace analysis over organic and non-organic micro-organisms. The gas chromatography is equipped with the high performance microprocessor of temperature control. It can conduct various tests according to the requirements on ionized hydrogen flame, heat conduction and electron detecting. The quantity analysis and trace analysis over the organic and non-organic micro-organisms can be conducted at the boiling point of 399°C or below. These precise analyses underpin the Group's testing standard.



The Group also invested approximately RMB5 million for purchasing new equipment for the marine products workshop and ammonia gas plant. Major equipment have already reached the leading standard in the PRC. The Group has imported the latest refrigeration system and automatic scrubbing system in order to ensure the production efficiency.

The Group has implemented stringent quality control system which standard is far higher than the national one. For example, the Group has set up a network of quality control system comprising approximately 1,500 points. The sampling tests of micro-organisms in the water are conducted daily and will be followed by a detailed analysis on weekly basis.

Reputable customer base

The sales and marketing staff of the representative offices in Hong Kong and Japan promoted the Company's own brand — "Longyu" to the international markets by way of direct marketing and underwriting agreements with food trading companies. During the year under review, the Hong Kong representative office succeeded in entering a supply contract with Maxim's Caterers Limited. Maxim's has chain restaurants and fast food shops which provide diversified catering services in Hong Kong. When necessary, the Group is preparing to establish strategic relationship with Maxim's in terms of orders volume and product varieties.

The Group's representative office in Japan successfully entered into sales agreements with four new customers, namely Hanwa Co., Ltd. (阪和興業株式会社)、Sugamiya Co. Ltd. (株式会社菅宮)、New Century Trading Co. Ltd. (新世紀通商株式会社) and Kadimu Trading Co. Ltd. (株式会社クーデーエム) on various products with the provision of reaching a total order volume of approximately 2,000 tonnes in 2004.



High end products

The Group has launched a new series of products — flying fish roes for sushi, monkfish tails and monkfish liver. Given the superior quality of products and its cost competitiveness, the Group succeeded in launching these products to the Japan market. In particular, the sales of flying fish roes for sushi achieved outstanding results of over 200 tonnes and contributed about RMB27 million to the Group's revenue. For the monkfish tails and monkfish liver product series, a yearly purchase agreement for an order of 200 tonnes was signed. In respect to the packaging, the Group has used vacuum-sealed bag to pack its products. Its features are lengthening the storage period and preserving the texture of the food. Other new packages were designed to be put in microwave oven directly. In the sense, the Group provides a natural, convenient and hygienic choice of diets to its customers.



Prospects

Looking ahead, the Group firmly believes that its quality products will create more business opportunities. Therefore, the Group continues to put a strong emphasis on the improvement of the production procedures, stringent implementation of management policies and various development strategies so as to raise the market share of its products. The Group is poised to develop the EU, Japan, the US, Korean and the PRC markets and is committed to attain the targets in the year ahead.

Expanding and stabilizing raw materials supply

To ensure abundant and quality supply of raw materials for production, the Group has entered into one-year supply agreements with more than ten raw materials suppliers in early 2004. Also, the Group is expected that the newly leased Bei Hai aqua farm would commence its raw materials supply in the second half of 2004. Furthermore, the continual operation of the Sanshan aqua farm in Fujian Province also guarantees its sufficient supply to meet the sales orders.

Under normal production capacity, the Group expects the total amount of raw materials from these two aqua farms accounting for approximately 85% of total annual purchase volume.

Raising the competitiveness

In early 2004, the outbreak of Avian Influenza in Asian regions once again drew the concern over the food safety. For this reason, the Group installed remote video recording and other ancillary facilities to monitor the entire production line of the grilled eel. This monitoring system not only records the image and sound of the entire production process but also provides an important reference for future tracking. In addition, the management officers can inspect the working conditions at the plant in the office. There is no doubt this system can significantly enhance the management efficiency and the level of automation.

The Group's new integrated research and development center will commence its operation in the first half of 2004. Its gross floor area is approximately 4,000 sq.m. It is equipped with diverse advanced facilities for experiments and inspections. Besides, the integrated center also consists of laboratories, kitchens and inspection rooms. The Group intends to employ approximately 50 staffs whose expertise includes biologist, food research and development, marketing research and so on.

In respect of micro-organisms inspection control techniques, the Group is in a leading position within the domestic industry. The research and development centre will equip with bacteria-free room, chemical residuals inspection room, heavy metal inspection room and shellfish poison inspection room. Such as sophisticated inspection of micro-organisms, agricultural and animal chemical residuals, heavy metal and shellfish poison can be carried out with these new additional facilities.

The EU market

Upon the Group's access to the EU market, the Group promotes its products mainly through PANAPESCA SPA. The Group expects the sales volume of baby clams and octopus exported to the EU market would reach approximately 300 tonnes next year. In order to serve the diet preference of customers in the new regions, the Group has planned to launch 2 to 3 new convenient food products to the EU market.

The Group focuses on expediting the penetration of its products to the EU market and contemplates to cooperate with 1 to 2 large food sourcing agents with extensive sales network.

Japan and the US market

The Group will continuously devote its efforts in the expansion of the US and Japan markets. In the year ahead, the Group is ready to revamp the products and marketing strategies in order to boost the sales in these two markets. For example, the Group is continuing to tailor-make unique and innovative products to its strategic partners.

Korean market

In October 2003, the Group has entered into a one-year purchasing contract with Samho Product Company (三湖物産公司) at China Fisheries & Seafood Expo (國際海洋漁業博覽會) in Shanghai. The contract specifies that the Group shall be responsible for the supply of grilled eel, eel fillet, "Seven star" eel and baby clams commencing from January 2004. The Group is confident that there is room for extra sales orders to be placed in terms of quantities and types of products.



The PRC market

In selecting long-term strategic partners in the PRC market, the Group considers to align with resourceful and well-experienced wholesalers or distributors. The larger the extensive sales network and the better the delivery system in place would make the cost more competitive than other competitors. Given these advantages will certainly help the Group's products to emerge in the PRC market rapidly.

The Future Blueprint

To accommodate sustainable business growth, the Group intends to increase its capital commitments in order to enlarge the production scale.

The Group has nearly completed the construction of the frozen marine products workshop in the existing plant premises and intends to acquire new production equipment. It is anticipated that the new equipment would be in place in the second half of 2004. With these new frozen marine products facilities, the production and processing capability can be increased by approximately 25%.

In the peak seasons, the Group's frozen storage capacity becomes saturated. Therefore, the Group plans to step up the frozen storage capacity to about 7,000 tonnes.

The Group plans to set up 2 to 3 primary processing centers in the raw materials base in order to enhance the existing production and processing efficiency and improve the freshness of raw materials.

The Group might consider leasing or acquiring 1 to 2 suitable frozen marine foods processing enterprises in regions outside Fujian Province where the supply of marine sources are abundant, such as Zhejiang and Guangxi. These types of arrangement will enable the Group to integrate resources and undertake division of labour. Consequently, the Group's productivity and product varieties will be maximized.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2003, the Group had banking facilities from banks in Hong Kong and Macau were approximately HK\$70,000,000 (approximately equivalent to RMB74,200,000) and the banking facilities from a PRC bank were approximately RMB41,500,000.

As at 31 December 2003, the Group had utilized all banking facilities. Accordingly, the Group's term loans amounted to approximately RMB111,725,000.

The term loans from Hong Kong and Macau banks were subject to the floating rates. The interest rates were calculated at margins over 3-month HIBOR rate. The margins were determined from 1.75% to 2.75% per annum. The PRC term loans were charged at fixed rate of 5.841% per annum.

The Group has maintained a gearing ratio 23% (2002: 9%). The ratio is computed as interest bearing liabilities divided by total assets.

During the year under review, the Group issued US\$4,500,000 (approximately equivalent to RMB37,206,000) coupon bonds with warrants attached. The issue of the coupon bonds will be divided into 4 tranches. Each "A Bonds" and "B Bonds" in the nominal amount of US\$1,350,000 while the "C Bonds" and "D Bonds" in the nominal amount of US\$900,000 respectively. The coupon bonds were charged at fixed rate of 2.5% per annum and payable in arrears from the date of issue.

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

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

The directors are of the opinion that the financial resources available to the Group including the internal generated funds, banking facilities and the net proceeds from the placement of coupon bonds were sufficient to meet the operations, capital commitment and authorization.

Treasury Policy

As at 31 December 2003, the Group had cash and cash equivalents of approximately RMB414,446,000. The Group had deposited the money in banks in PRC and licensed banks in Hong Kong.

Use of Listing Proceeds

In respect of the net proceeds from the placement of coupon bonds, the Group had used to finance the working capital needs of (i) the lease of Sanshan aqua farm for the supply of raw materials; and (ii) the expansion of modification of the Group's existing processing food platform facilities.

Employees and Remuneration Policy

As at 31 December 2003, the Group had approximately 530 employees compared with approximately 494 employees for the year ended 2002. 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 the PRC wholly subsidiary are vested the Group's contribution to the state sponsored retirement plan.

During the year under review, the staff costs of the Group totaled approximately RMB8,339,000 compared with approximately RMB17,713,000 for the year ended 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.

The Group fully recognizes the importance of its human resources to its success. Tailor-made training programs relating to food processing industry are provided to staff in our PRC plant. As an important precaution measure to food safety, the Group provided annual health check to workers.

The Group always concerns the issue of worker's accommodation. During the year under review, the Group provided a quarter unit to majority of workers as labor welfare.

Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 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 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 prudent measure as deemed appropriate.

Significant Investment and Acquisition

During the year 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 2003, the Group's commitments in respect of assets acquisition described in note 30 to the financial statements.



Charges on Assets

As at 31 December 2003, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2003, the Group had the contingent liabilities described in note 31 to the financial statements.