

HYGIENIC



NATURAL



CONVENIENT



FIRST NATURAL FOODS

HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

2004 Interim Report



HIGHLIGHTS

- **4th consecutive growth of interim results.**
- **Turnover and net profit recorded growth of approximately 9% simultaneously.**
- **Earnings per share increased to RMB7.26 cents.**
- **New products: flying fish roes and monkfish livers contributed approximately 20% to the revenue.**
- **Maintaining the leading position in the food processing industry as the Group's long term mission.**
- **Two prominent strategies: raising food processing standard and implementing quality human resources management.**

The board of directors (the “Board”) of First Natural Foods Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2004 together with the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

		For the six months ended 30 June	
	Note	2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)
Turnover	2	227,714	209,745
Cost of sales		(119,290)	(110,576)
Gross profit		108,424	99,169
Other revenue	4	1,032	660
Distribution costs		(1,325)	(1,132)
Administrative expenses		(14,659)	(6,332)
Other operating expenses		(1,917)	(2,122)
Profit from operations		91,555	90,243
Finance costs	5(a)	(2,351)	(8,683)
Profit from ordinary activities before taxation	5	89,204	81,560
Taxation	6(a)	(24,768)	(22,590)
Profit attributable to shareholders		64,436	58,970
Dividends	7	19,090	25,440
Earnings per share			
— Basic	8(a)	RMB7.26 cents	RMB7.21 cents
— Diluted	8(b)	RMB7.07 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

	Note	At 30 June 2004 RMB'000 (unaudited)	At 31 December 2003 RMB'000 (audited)
NON-CURRENT ASSETS			
Fixed assets	9	141,706	136,024
Deferred tax assets		993	993
Prepaid rentals		21,966	28,466
		164,665	165,483
CURRENT ASSETS			
Inventories	10	34,154	20,428
Trade and other receivables	11	113,735	59,990
Cash and cash equivalents		443,099	414,466
		590,988	494,884
CURRENT LIABILITIES			
Trade and other payables	12	17,298	14,384
Bank loans		56,760	59,255
Coupon bonds	13	11,162	—
Taxation	6(b)	12,251	8,488
Provision for staff welfare benefit		14,985	14,830
		112,456	96,957
NET CURRENT ASSETS		478,532	397,927

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

		At 30 June 2004	At 31 December 2003
	Note	RMB'000	RMB'000
		(unaudited)	(audited)
<hr/>			
TOTAL ASSETS LESS CURRENT LIABILITIES		643,197	563,410
NON-CURRENT LIABILITIES			
Bank loans		48,340	52,470
Coupon bonds	13	26,044	37,206
		74,384	89,676
		<hr/>	
NET ASSETS		568,813	473,734
		<hr/>	
CAPITAL AND RESERVES			
Share capital	14	48,679	43,485
Reserves	15	520,134	430,249
		568,813	473,734
		<hr/>	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	For the six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash inflow from operating activities	18,407	58,360
Net cash (outflow)/inflow from investing activities	(10,786)	29,340
Net cash inflow from financing activities	21,012	10,129
Increase in cash and cash equivalents	28,633	97,829
Cash and cash equivalent at 1 January	414,466	226,653
Cash and cash equivalent at 30 June	443,099	324,482

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	For the six months ended 30 June 2004		For the six months ended 30 June 2003	
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Shareholders' equity at 1 January		473,734		380,908
Net profit for the period	64,436		58,970	
Dividend approved during the period (note 7(b))	(19,090)		(25,440)	
		45,346		33,530
Movements in share capital:				
— Shares issued	5,194		—	
— Net premium received	44,539		—	
		49,733		—
Net increase in shareholders' equity arising from capital transactions with shareholders		—		—
Shareholders' equity at 30 June		568,813		414,438

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

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 Institute of Certified Public Accountants ("HKICPA").

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Stock Exchange's website. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 April 2004.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial report.

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 2003 annual financial statements.

2. TURNOVER

The principal activities of the Group are manufacturing and sales 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 sales of frozen marine food products
Frozen functional food products	:	The manufacture and sales of frozen functional food products
Refrigerated processed meat products	:	The manufacture and sales 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	
	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	117,208	132,039	110,506	77,706	—	—	227,714	209,745
Segment result	59,608	64,505	47,936	34,664	—	—	107,544	99,169
Unallocated operating income and expenses							(15,989)	(8,926)
Profit from operations							91,555	90,243
Finance costs							(2,351)	(8,683)
Taxation							(24,768)	(22,590)
Profit attributable to shareholders							64,436	58,970

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 State of America		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	158,031	140,659	59,940	69,086	9,743	—	227,714	209,745

4. OTHER REVENUE

	For the six months ended 30 June	
	2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)
Subsidy income*	56	135
Interest income from banks	976	525
	1,032	660

* 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., Ltd., 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	
	2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)
(a) Finance costs		
Interest on borrowings wholly repayable within five years		
— bank loans	1,886	1,314
— coupon bonds	465	233
Costs related to the issue of coupon bonds	—	7,136
	2,351	8,683
(b) Other items		
Cost of inventories [#]	120,170	110,576
Staff costs [#]	4,699	4,322
Depreciation of fixed assets [#]	6,080	4,986
Operating lease charges in respect of premises	6,983	3,789
Provision for obsolete and slow moving inventories	750	—
Provision for bad and doubtful debts	1,800	2,000

[#] Cost of inventories includes staff costs of approximately RMB2,450,000 (2003: RMB2,342,000) and depreciation expenses of approximately RMB5,219,000 (2003: RMB4,276,000) 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	
	2004	2003
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC enterprise income tax	24,768	22,590

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 from Hong Kong (2003: Nil).

(ii) PRC enterprise income tax

Fuqing Longyu Food Development Co., Ltd., 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%.

Hence, the PRC enterprise income tax for the six months ended 30 June 2004 presented was at the rate of 24% (2003: 24%) on the estimated assessable profit.

- (b) Taxation in the consolidated balance sheet represents:

	At 30 June 2004	At 31 December 2003
	RMB'000	RMB'000
	(unaudited)	(audited)
PRC enterprise income tax	12,251	8,488

- (c) No further provision for deferred taxation has been recognized for the period ended 30 June 2004 as there has been no material temporary difference for tax purpose.

7. DIVIDENDS

- (a) The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: Nil).

- (b) Dividends attributable to the financial year ended 31 December 2003, approved and paid during the period:

	For the six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Final dividend paid HK\$0.02 (equivalent to approximately RMB0.0212) per ordinary share (2003: HK\$0.03 equivalent to approximately RMB0.0318)	19,090	25,440

8. 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 RMB64,436,000 (2003: RMB58,970,000) and the weighted average number of 888,142,000 (2003: 800,000,000) ordinary shares in issue during the period.

The basic earnings per share for the period ended 30 June 2003 is restated and is changed from RMB7.37 cents to RMB7.21 cents. It is due to the bonus issue of shares 18,009,257 during the period is treated as if it had occurred prior to the beginning of the period ended 30 June 2003, the earliest period reported.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 June 2004 is based on the profit attributable to shareholders of approximately RMB64,436,000 and the weighted average number of 911,980,000 ordinary shares after adjusting for the effects of all dilutive ordinary potential shares.

Diluted earnings per share for the period ended 30 June 2003 was not presented as there were no dilutive potential ordinary shares in existence during the period ended 30 June 2003.

(c) Reconciliations

	2004
	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	888,142,000
Deemed issue of ordinary shares	23,838,000
	911,980,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	911,980,000

9. ADDITIONS TO FIXED ASSETS

During the period under review, the Group spent approximately RMB846,000 (six months ended 30 June 2003: RMB615,000) on the acquisition of furniture and equipment, motor vehicles and construction in progress and approximately RMB10,916,000 (six months ended 30 June 2003: RMB7,670,000) on the manufacturing plant and machinery in PRC in order to enlarge the Group's production capacities respectively.

10. INVENTORIES

	At 30 June 2004 RMB'000 (unaudited)	At 31 December 2003 RMB'000 (audited)
Raw materials	4,200	993
Finished goods	32,087	20,818
	36,287	21,811
Less: Provision for obsolete and slow moving inventories	(2,133)	(1,383)
	34,154	20,428

There were no inventories carried at net realizable value as at 30 June 2004 and 31 December 2003.

11. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2004 RMB'000 (unaudited)	At 31 December 2003 RMB'000 (audited)
0 to 1 month	51,037	35,702
1 to 3 months	37,983	16,951
3 to 6 months	56	—
6 months to 1 year	1	—
	89,077	52,653
Less: General provision for bad and doubtful debts	(4,422)	(2,622)
Trade receivables, net	84,655	50,031
Other receivables, deposits and prepayments	29,080	9,959
	113,735	59,990

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 2004 RMB'000 (unaudited)	At 31 December 2003 RMB'000 (audited)
Due within 1 month or on demand	451	219
Due after 1 month but within 3 months	303	101
Due after 3 months but within 6 months	2,221	355
Due after 6 months	—	147
Total trade payables	2,975	822
Accruals and other payables	10,030	9,368
Due to a director	4,293	4,194
	17,298	14,384

13. COUPON BONDS

The 2.5% coupon bonds (the "Bonds") with detachable warrants attached, having an aggregate principal amount of US\$4,500,000 (equivalent to approximately RMB37,206,000), were issued on 10 April 2003 and will mature on 9 April 2008. Each Bond is in the denomination of US\$5,000 with a warrant attached. The Bonds bear interest at the coupon rate of 2.5% per annum, payable annually in arrears on 9 April each year. During the period ended 30 June 2004, no bonds were redeemed, and as at 30 June 2004, the bonds were repayable as follows:

	At 30 June 2004 RMB'000 (unaudited)	At 31 December 2003 RMB'000 (audited)
Within 1 year	11,162	—
After 1 year but within 2 years	18,603	11,162
After 2 years but within 5 years	7,441	26,044
Total	37,206	37,206
Less: current portion	(11,162)	—
Non-current portion	26,044	37,206

The holders of the Bonds (the "Bondholders") may elect to redeem the Bonds at par in accordance with the following schedule in (i)

(i) Date of redemption	RMB'000 (unaudited)
9 April 2004	11,162
9 April 2005	11,162
9 April 2006	7,441
9 April 2007	7,441
	<u>37,206</u>

In the event that if the Bondholders do not elect to redeem the Bonds in accordance with the schedule mentioned above, the Company shall redeem the Bonds at par in accordance with the following schedule in (ii):

(ii) Date of redemption	RMB'000 (unaudited)
9 April 2006	11,162
9 April 2007	11,162
9 April 2007	7,441
9 April 2008	7,441
	<u>37,206</u>

In consideration of any Bonds being redeemed in (ii) above, the Company shall issue, to each Bondholder, one warrant for each Bond. Further details of the warrants are set out in note 17.

The Company may redeem all or part of the Bonds at any time following two and a half years after 9 April 2003 at par.

On 9 April 2004, the Bondholders, having an aggregate principal amount of US\$1,350,000 (equivalent to approximately RMB11,162,000), did not redeem their Bonds.

Further details of the redemption of the bonds are set out in the announcement dated 4 April 2003 issued by the Company.

14. SHARE CAPITAL

	Note	At 30 June 2004 Number of share '000 (unaudited)	Amount RMB'000 (unaudited)
Authorised:			
— Ordinary shares of HK\$0.05 (equivalent to approximately RMB0.053) each			
At 31 December 2003 and 30 June 2004		2,000,000	106,000
Issued and fully paid:			
— Ordinary shares of HK\$0.05 (equivalent to approximately RMB0.053) each			
At 1 January		820,463	43,485
Issue of shares by a private placement	(a)	80,000	4,240
Issue of bonus shares	(b)	18,009	954
At 30 June 2004		918,472	48,679

Notes:

- (a) During the period, 80,000,000 shares of HK\$0.05 (equivalent to approximately RMB0.053) each of the Company were placed at a price of HK\$0.64 (equivalent to approximately RMB0.678) per share by a private placement to independent investors.
- (b) During the period, 18,009,257 shares were issued and allotted credited as fully paid-up and distributed by way of bonus to members whose names appear on the Register of Members of the Company as at the close of business on 4 June 2004 (the "Members"), as far as practicable, in the proportion of two bonus shares for every one hundred shares held by the Members.

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 2004	102,780	41,421	20,767	10,081	255,200	430,249
Premium on the issuance of shares by						
— a private placement (note 14(a))	50,032	—	—	—	—	50,032
— bonus issue of shares (note 14(b))	(954)	—	—	—	—	(954)
Shares issue expenses	(4,539)	—	—	—	—	(4,539)
Dividend approved in respect of previous year (note 7(b))	—	—	—	—	(19,090)	(19,090)
Profit for the period	—	—	—	—	64,436	64,436
At 30 June 2004	147,319	41,421	20,767	10,081	300,546	520,134
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 approved in respect of previous year (note 7(b))	—	—	—	—	(25,440)	(25,440)
At 30 June 2003	96,056	41,421	20,767	10,081	203,713	372,038

16. COMMITMENTS

- (a) Capital commitments outstanding at 30 June 2004 not provided for in the financial statements were as follows:

	At 30 June 2004 RMB'000 (unaudited)	At 31 December 2003 RMB'000 (audited)
Acquisition of fixed assets		
— authorized and contracted for	22,563	8,000
— authorized but not contracted for	—	399
	22,563	8,399

- (b) At 30 June 2004, the total future minimum lease payments under non-cancellable operating leases in respect of premises were payable as follows:

	At 30 June 2004 RMB'000 (unaudited)	At 31 December 2003 RMB'000 (audited)
Within 1 year	13,246	12,639
After 1 year but with 5 years	46,141	45,589
After 5 years	172,530	171,960
	231,917	230,188

17. WARRANTS

The Company issued the coupon bonds (see note 13) with detachable warrants attached. The holders of warrants (the "Warrantholders") can exercise the subscription rights attaching to the warrants, in whole or in part, at any time from 10 April 2003 to 9 April 2008 (both days inclusive) to subscribe for the shares of the Company ("Subscription Shares") by either (i) delivering the bonds, so long as the bonds are not redeemed or (ii) paying the amount for the subscription, at an exercise price subject to adjustment ("Subscription Price").

The number of Subscription Shares to which a Warrantholder will be entitled for each warrant will be calculated by dividing the nominal amount of US\$5,000 by the Subscription Price.

Terms of unexpired and unexercised warrants:

Date of grant	Exercise period	Number of warrants	
		At 30 June 2004 (unaudited)	At 31 December 2003 (audited)
10 April 2003	10 April 2003 to 9 April 2008	710	710

18. CONTINGENT LIABILITIES

At 30 June 2004, there were contingent liabilities in respect of bank loan facilities utilized by a wholly owned subsidiary and guaranteed by the Company amounting to RMB41,500,000 (At 31 December 2003: RMB52,100,000).



FINANCIAL REVIEW

Amidst the buoyant of global economic conditions, the Group's half yearly results have recorded over that in the corresponding period in 2003. Such positive results indicate the Group is on the right track to grow its business.

For the six months ended 30 June 2004, the Group recorded a turnover of approximately RMB227,714,000, representing an increase of 9% as compared with the corresponding period in 2003 and it was the fourth consecutive growth of interim results. The growth in turnover was mainly attributable to the rising market requirements to the hygienic and safety standard and nutrient values of frozen marine food, in particular the convenient food. Leveraged on its leading position in top quality production, the Group has successfully captured a more substantial market share in the domestic and international markets. Furthermore, the sales of the Group's popular product, grilled eels, have recorded as the momentum driving the growth of the Group's turnover in the first half of 2004.

For the six months ended 30 June 2004, the Group's profit attributable to shareholders was approximately RMB64,436,000, representing an increase of approximately 9% as compared with the corresponding period in 2003. The gross profit of the Group was approximately RMB108,424,000, also representing a growth of about 9% as compared with the corresponding period last year while the gross profit margin was maintained at approximately 47.6%, representing an increase of approximately 0.3 percent point as compared with the corresponding period in 2003. Such an increase reflects the outcome of the new product mix for the first six months in 2004, new products with high profit margins formed significant proportions in the total revenue of the Group.

BUSINESS ANALYSIS


Owing to the Group's continuous efforts in the development of frozen marine food products unit, the Group has achieved remarkable results and its turnover for the six months ended 30 June 2004 was approximately RMB117,208,000. Its turnover accounted for about 51% of the Group's total turnover.

The turnover of frozen functional food products unit was approximately RMB110,506,000, accounting for about 49% of the Group's total turnover. This turnover shows an increase of 42% over that in the corresponding period in 2003 because the turnover of flying fish roes accounted as frozen functional food products unit.

The refrigerated meat products unit was not recorded any turnover because no customer sales order have been received during the period under review.

GEOGRAPHICAL ANALYSIS

During the period under review, the two largest market segments of the Group are still Japan and the US. The persistent strong demand for high quality frozen marine food in Japan, resulted in the Group's largest export market. The turnover of the Japan market was



approximately RMB158,031,000, accounting for about 70% of the total turnover and representing an increase of about 12% as compared with the corresponding period in 2003.

The US remains the Group's second largest export market and its strategic business partners, namely Panapesca USA Corporation and Sysco Corporation, have made significant contributions to the sales of the Group's products in the US market. The turnover of the US market was approximately RMB59,940,000, accounting for about 26% of the Group's total turnover

The Group spared no efforts in establishing the market presence in Korea in the first half of 2004. At present, (三湖物産公司) Samho Product Company is the single customer in Korea. During the period under review, the turnover of the Korean market was approximately RMB7,672,000, accounting for about 3% of the Group's total turnover. Hong Kong and China were collectively recorded RMB2,071,000 which was representing 1% of the Group's total turnover.


BUSINESS REVIEW

The Group has achieved encouraging results for the first half of 2004 and it was the fourth consecutive growth of interim results. During the period under review, the PRC foods market was adversely affected by the unprofessional producers and their sub-standard and fake products. As a result, consumers lack confidence in the hygienic and safety level of food processors in PRC. However, the Group has been upholding its mission in the production of superior quality and hygienic products. More importantly, the Group has further strengthened its quality control measures during the period under review in order to strive for a top quality high end food processor and producing high nutrition values, healthy and low-calorie products.

GUARANTEED FOOD QUALITY AND SAFETY

The Group's integrated research and development center has commenced its operation in April 2004. The research and development center is multi-functions including food research and development, training and inspection, etc.

Meanwhile, the Group has established a comprehensive international standard inspection testing on micro-organism, chemical residue and substances. Those testing include high standard micro-organism and chemical residue inspections to ensure the Group's products are reaching internationally-recognized standard. In addition, the Group uses imported liquid chromatography, gas chromatography and fluorescence detector to perform stringent inspection and carry out in-depth analysis on eel. The Group's inspectors would carry out regular on-site inspections on the water, usage of feeds and drugs, chemical residue at the eel cultivation bases. By means of such type of compliance testing, the standards of supplies to the Group are highly guaranteed.



Currently, the Group has been arranging technicians to participate in the professional trainings organized by Administration for the Entry-Exit Inspection and Quarantine of Fujian on a regular basis. To further strengthen quality control on shellfish poison inspection, the Group also acquired speedy micro-organism inspection devices to assess the quality of shellfish precisely.

NEW PRODUCTS GAIN

The Group's new products like flying fish roes for sushi, have achieved outstanding results, approximately 300 tonnes of flying fish roes sold during the period under review. The Group has secured its leading position as the exclusive exporter of flying fish roes for sushi in Fujian Province. Another new products, the Group's monkfish tails and monkfish livers were well-received among traders and consumers. During the period, its sales reached 220 tonnes. Overall, the contributions from those new products were approximately RMB43,851,000, accounting for about 20% of the Group's total sales during the period.

NEW OPERATIONAL FACILITIES


In the first half of 2004, the Group has heavily invested approximately RMB30,000,000 in the acquisition of production equipment and upgrading the production capacity.

In conjunction to the capacity expansion and new product research and development, the Group has to increase the existing frozen storage capacity. The Group has already invested approximately RMB15,000,000 for the construction of a new integrated frozen storage room with high, medium and low temperature options and a storage volume is about 8,000m³ expanding its existing storage volume by 0.5 times. This brand-new automated cold storage room is expected to be completed in the end of 2004 and its estimated cost will reach approximately RMB50,000,000.

Given the tremendous electricity demand arising from the improvement and expansion of production and processing plant premises, the Group has to overhaul the power system and equipment in the existing production plant, including the acquisition of high operation rate power generation units, restructuring of the electricity network and extension of the electricity supply circuits. In addition, the Group has acquired a power generator from UK Cummins. This "Cummins" engine will output an extra 1,000 volts to the plant.

NEW CUSTOMERS

In the first half of 2004, the Group was actively engaged in the marketing and promotion activities of overseas and the PRC markets for the purpose of expanding its market shares. Meanwhile, the Group's sales and marketing staff of the representative offices in Japan and Hong Kong have successfully developed business relationships with a number of new customers, namely 東商株式會社, (Azuma Shoji Co Ltd), 盒食株式會社 (Goshokuco Ltd) and Chung Hing Food Trading Limited respectively.



The Group spared no efforts in developing the Korean market. Samho Product Company, a reputable large-scale seafood enterprise in Korea, purchased a numerous types of eel products from the Group and then redistributed them over a thousand of retail points. Under these circumstances, the Group's products can be benefited from the complete penetration in the Korean market. The Group has entered into a sales agreement with 大降水産 (Daekang Fishery Co Ltd) in July 2004 and will commence supply in second half of 2004.

PROSPECTS

It is clear that the Group's long term goal is maintaining its leading position in the industry. To achieve the goal, the Group continues to focus on consolidating its competitive edges.

RAISING THE FOOD PROCESSING STANDARD

In pursuit of leading position in food processing industry, the Group's management believes that professionalism and product refinement are two indispensable factors. Over the past few years, based on professional knowledge and keen vision on food industry, the Group has created a platform and standardized its production to a world-class level. The obvious results are the Group to launch into overseas markets successfully, namely Japan and the US.

After the Group has succeeded to position itself as a reliable food processor to its customers, it is necessary for the Group to refine its finest delicacies. Such refinement processes are enabled to protect the Group's intellectual rights and to facilitate it to further market penetration. For this reason, the Group plans to develop a series of high-end finest delicacies in the brand-name of "Longyu" and to deliver to Hong Kong market as a springboard to enter into international markets.

QUALITY HUMAN RESOURCES

For the purpose to enhance the Group's human resources, the Group has engaged an international management consultancy in the PRC to input an employee management system. The main purpose of this engagement is on improving our human resources. First the Group must establish its own corporate culture and encourage better communications between the senior management and its employees. Second, based on this foundation, the Group has to set up its appraisal system and related value-based incentive scheme. Third, a comprehensive recruitment and training program must be formulated. Adopting these insightful recommendations, the Group is expecting the employees to become more loyal and to work in a satisfactory environment.

DISTINCT PRODUCTS REACH NEW MARKETS

To highlight the importance of Europe market, the Group intends to launch other value-added products, for example frozen spring rolls with varieties of choices of seafood and vegetables stuffing. Meanwhile, the Group has been negotiating for long-term purchasing agreements with several European customers.

In those negotiations, the Group is inspired to conduct more research and development of modern seasoned foods for European customers in order to map out the direction in the European market. Such seasoned foods include foodstuffs for side dishes, western-style soup, exquisite dim sum, etc.

Pacific Trading Co Ltd, an intermediate agent in Japan, is responsible for sourcing on behalf of its customers. Currently, the Group has sold the grilled eel and flying fish roes to Pacific Trading Co Ltd and then redistributed to its customers like Japan Food Corp (AUST) Pty Ltd, Japan Foods Trading Pty Ltd, JFC International Inc of the US and JFC New Zealand Ltd of New Zealand. Under this circumstance, these type of product movements are beneficial to the Group's wide coverage in other overseas markets.

Leveraged on the vast international market operation experience, the Group is determined to further expand the PRC market of tremendous potentials.


Nowadays, the new diet concept of healthy and high nutrient values prevails. The families in the PRC are embracing nutritious and hygienic frozen seasoned foods in substitution of the traditional diet. Given the fact that the existing frozen seasoned foods are unable to fulfill such new diet trend of consumers, the Group intends to focus on the development of healthy, low-calorie, hygienic, safe and superior quality frozen seasoned foods.

In the view of the maximization of profits, the Group is still considering cost effective strategies to enter into Shanghai market. The Group is trying to reduce or eliminate the middleman cost which can make the Group's products more competitive.

GEARING UP FOR GROWTH

The Group has completed two additional frozen seasoned food production lines and has commenced trial production in July 2004. It is expected that the number of production lines will be increased to four. Such a plan aims at offering consumers with a series of healthy seasoned foods without preservatives, MSG and artificial colouring. In terms of product packagings, the Group uses vacuum-sealed bags to preserve the 100% original texture, flavour and freshness of foods and enhance its nutrient values and tastes.

Moreover, the Group will further revamp and expand the marine products workshop. A sophisticated bacteria-free seafood processing workshop of about 1,500 sq.m. and a new production line will be constructed. The total investment amounted to about RMB20,000,000.



The Group research and development center would perform analysis and test on the quality of water used for production on a regular basis to guarantee the physical and chemical characteristics and bacteria content are up to the HACCP standard. To guarantee this stability of water conditions, the Group intends to overhaul the water supply system, acquires additional high performance multi-functional water purification system, magnetization and sterilization processes to filter the water to an excellent standard.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2004, the Group's total borrowings were approximately RMB142,306,000. They included a 3-year term loan from Hong Kong and Macau banks amounted to approximately RMB63,600,000, and was 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 Group also has term loans from a PRC bank amounted to approximately RMB41,500,000 and were charged at fixed rate at 5.841% per annum.

As at 30 June 2004, the Group has maintained a gearing ratio of 19% (2003 : 16%). The ratio is computed as interest bearing liabilities divided by total assets.

In addition, the Group issued US\$4,500,000 (equivalent to approximately RMB37,206,000) coupon bonds with warrants attached due on 9 April 2008. The issue of the coupon bonds will be divided into 4 tranches. Each "A Bond" and "B Bond" are in the nominal amount of US\$1,350,000 while the "C Bond" and "D Bond" are in the nominal amount of US\$900,000 respectively. The coupon bonds were charged at a fixed rate of 2.5% per annum and payable in arrears from the date of issue.

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

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

As at 26 February 2004, the Group announced to raise funds by a private placement of 80,000,000 ordinary shares of the Company, resulting in net proceeds of approximately HK\$46,900,000 (equivalent to approximately RMB49,733,000). The Group has regarded the use of the proceeds as general working capital. As at 30 June 2004, the unused proceeds was approximately HK\$40,000,000 (equivalent to approximately RMB42,400,000) and was kept in a Hong Kong bank as short term deposit.

The Directors are of the opinion that the financial resources available to the Group included the internal generated funds, bank borrowings and the net proceeds from the private placement were sufficient to meet the operations, capital commitment and authorization.

TREASURY POLICY

As at 30 June 2004, the Group had cash and cash equivalents of approximately RMB443,099,000. The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2004, the Group had approximately 670 employees compared with approximately 530 employees for the year ended 31 December 2003. 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 RMB4,699,000 compared with approximately RMB4,322,000 for the period ended 30 June 2003.

On 4 June 2004, an ordinary resolution was passed in the Special General Meeting, the share option scheme adopted on 17 January 2002 (the "2002 Scheme") was terminated and a new share option scheme (the "2004 Scheme") was approved and adopted. During the six months ended 30 June 2004, no options have been granted by the Company under either the 2002 Scheme or the 2004 Scheme.

As at the date of this report, the Company has already granted 32,500,000 share options to the directors and employees under the 2004 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.

In addition, the Group also provided a complimentary quarter unit to the majority of workers as the labor welfare.

EXPOSURE TO EXCHANGE RATES

For the period ended 30 June 2004, 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 measures 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 COMMITMENTS

As at 30 June 2004, the Group's commitments in respect of assets acquisition described in note 16(a) to the financial statements.

CHARGES ON ASSETS

As at 30 June 2004, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2004, the Group had the contingent liabilities described in note 18 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2004, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") were as follows:—

Long positions in shares of the Company

Name of Director	Number of ordinary shares				Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Total	
Yeung Chung Lung	—	—	397,800,000 (Note)	397,800,000	43.31%

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 interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO)

which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2004, so far as is known to the Directors, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Regal Splendid Limited (<i>Note 1</i>)	Beneficial owner	397,800,000	43.31%
Wisdom Latch Limited (<i>Note 2</i>)	Beneficial owner	52,137,300	5.68%

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) Wisdom Latch Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Tung Fai.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the Special General Meeting held by the Company on 4 June 2004, the share option scheme adopted on 17 January 2002 (the "2002 Scheme") was terminated and a new share option scheme (the "2004 Scheme") was approved and adopted. The principal terms of the 2004 Scheme are set out in the Company's circular dated 6 May 2004. During the six months ended 30 June 2004, no options have been granted by the Company under either the 2002 Scheme or the 2004 Scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 1 December 2003, the Company had entered into a facility agreement (the "Facility Agreement") with a syndicate of banks relating to a 3-year term loan facility of up to HK\$60,000,000 (the "Loan"). Under the Facility Agreement, it would be an event of default if Mr. Yeung Chung Lung, the controlling shareholder of the Company as defined in the Listing Rules, ceases to be the single largest and controlling shareholder of the Company.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors of the Company, namely, Mr. Tsui Chun Chung, Arthur and Mr. Lu Ze Jian. The audit committee has reviewed with the Company's 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 financial statements of the Company for the six months ended 30 June 2004.

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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules except for the Independent Non-executive Directors are not appointed for any specific terms as they are subject to retirement by rotation in accordance with bye-law 87(1) of the Bye-laws of the Company.

On behalf of the Board
Yeung Chung Lung
Chairman

Hong Kong, 22 September 2004