## Financial Review

**(All the analysis below is based on the results of the Group for the year ended 31 December 2004 and the year ended 31 December 2003 for comparison purpose only)**

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB434,122,000 (2003: RMB378,378,000) representing a growth of approximately 15% as compared to last year.

During the year under review, the gross profit of the Group was approximately RMB198,420,000 (2003: RMB184,276,000), representing an increase of approximately 8%. However, the gross profit margin was only approximately 46% (2003: 49%). The decrease is due to the variation of products mix. The respective sales of frozen marine food products and frozen functional food products in terms of turnover were 52% versus 47% (2003: 66% versus 34%).

The profit attributable to shareholders during the year under review was approximately RMB121,904,000 (2003: RMB110,457,000) representing an increase of approximately 10%.

## Business Segment Analysis

The sales of the frozen marine food products reached approximately 8,700 tonnes ( 2003: 9,100 tonnes) and the turnover was approximately RMB227,394,000 (2003: RMB249,275,000), accounting for approximately 52% (2003: 66%) of the Group's total turnover. The gross profit margin was approximately 49% (2003: 50%). There was a reduction in sales of frozen marine food products which was resulted from the actual input of raw materials were less than the expected supplies volume. As a result, the Group adjusted the production volume in frozen marine food products and inevitably affecting its gross profit margin.

The turnover of frozen functional food products was RMB206,068,000 (2003: RMB128,992,000), accounting for approximately 47% (2003: 34%) of the Group's total turnover. The proportion of roasted eels and flying fishing roes in terms of the turnover of frozen functional food products were 74% versus 26%. Amongst the frozen functional food products, the profit margin of roasted eels are relatively lower. As a result, the gross profit margin of the frozen functional food products were dropped to approximately 43% (2003: 47%.)

The frozen seasoned convenient food product is a brand-new segment. Its turnover was RMB660,000, accounting for approximately 1% of the Group's total turnover. It mainly includes the food products that are ready-to-be-served after heating with microwaves or ovens. As the Group believes the market potential for these kinds of products is huge, it devoted to develop a series of frozen seasoned convenient food products to meet the market demand. The contributions in terms of turnover and net profit from the frozen seasoned convenient food products are expected to grow significantly.

During the year under review, the Group had not carried out any production for refrigerated processed meat products after considering its costs and benefits.

## Geographical Analysis

For the year ended 31 December 2004, the turnover attributable to the Japan market reached approximately RMB289,400,000 (2003: RMB274,028,000), representing approximately 67% (2003: 72%) of the Group's total turnover.

The turnover of frozen marine food products and frozen functional food products in Japan were approximately RMB119,000,000 (2003: RMB145,312,000) and RMB170,400,000 (2003: RMB128,716,000) respectively, accounting for approximately 27% (2003: 38%) and 39% (2003: 34%) of the Group's total turnover, representing a decrease of approximately 18% and an increase of approximately 32% as compared to the last year respectively.

The US is the second largest export market of the Group. The turnover attributable to the US market recorded approximately RMB121,776,000 (2003: RMB103,934,000), accounting for approximately 28% (2003: 28%) of the Group's total turnover.

Benefited from the sales of roasted eels to Korea and the PRC, the corresponding turnover to these two markets were approximately RMB17,748,000 and RMB4,465,000 respectively. The aggregate amount from these two markets was accounting for 5% of the Group's total turnover.

The Group also marked its debut to Australia market where newly frozen seasoned convenient food products were sold.

## Business Review

### Surging Demand for Marine Food from the International Markets

The PRC was the world's largest marine food exporting country for three consecutive years from year 2002 to year 2004, exporting over US$600 million of marine food. In year 2004, there was a significant increase in both the volume of marine food exported from the PRC as well as the prices of marine food. According to the statistics from China Custom, total export of marine food for the year 2004 was almost US$6,966 million which represents an increase of 27% as compared with the previous year; total export volume was 2.805 million tonnes, representing a 18.3% rise from year 2003.

Japan remains as the largest importer of the PRC marine food, accounting for 40.8% of the total export volume. The US, being the second largest importer, accounts for 13.7%. Japan, the US, Korea and the EU, collectively take up 79.0% of the total export volume. Among all the marine food products, roasted eels were the main export item from the PRC with a total of US$727.6 million exported in year 2004 which represents a considerable leap of 55.6% as compared with last year. Roasted eels represented almost 10.4% of the total marine food export. Industry participants expect the export of PRC marine food will continue to grow at a pace of over 15% in year 2005.

Given the enormous growth potential and unlimited opportunities for the PRC marine food industry, the Group as a reliable premium food producer in the PRC, has actively implemented various measures and strategies to sharpen its competitiveness and further increase its market share.

## Redefining the Products

The Group has positioned itself in the high-end market as a company with "excellence in products". Amid the launch of the brand new products, the charcoal roasted eels require the precise control of charcoal fire. This technical constraint makes mass production of roasted eels not possible. However, in the second half of year 2004, the Group's research and development department has overcome this technical problem in mass production of charcoal roasted eels by applying specialized production processes — from baking, steaming to flavor-blending. With its unique and delicious taste, the Group's charcoal roasted eels have been receiving overwhelming popularity and have rapidly captured a huge market share since its market launch. As a result, charcoal roasted eels and other related products steadily became one of the Group's major revenue contribution.

On the other hand, the aggregate sales of other higher value products such as flying fish roes, monkfish tails and monkfish livers accounted for approximately 16% of the Group's turnover. The substantial revenue contributions from the higher end products not only represented the Group's significant improvement in overall financial performance, market competitiveness and net profit level, but also strengthened the Group's confidence in deciding future directions for food processing. In the meantime, the Group has further revamped its products into four main categories — shellfish, flavor-blended marine food, frozen functional food and seasoned convenient food.

On market development, the Group not only maintained its two principal export markets — Japan and the US, but also actively developed new markets such as Hong Kong, Korea, Australia and New Zealand. During the year, the Group's higher-valued products were successfully launched in the high-end supermarket — Great Pacific Place, and a specialized Japanese food distributor in Hong Kong namely Oceanfresh Asia Limited (奧洋亞洲有限公司) which is a subsidiary of Angliss HK Food Service Ltd. (安德利香港餐飲有限公司).

## Strengthening Quality Control Measures

The Group always keeps risk awareness in its mind. Practically, the Group has made significant investments in the state-of-the-art facilities for its food safety system. Firstly, a new integrated research and development centre was built to provide training and testing on raw materials and finished goods. Secondly, the Group constructed a new integrated storage room where it has high, medium and low temperature storage compartments. Within the storage rooms, high-stacking storage shelves will be installed to increase the rooms utilization rate. Also, the storage rooms allow for faster transportation of products, better classification capability, increased protection of products and even improved air circulation. All these characteristics are especially suitable for high-end marine food to move in quick-freeze containers for transportation.

Besides, the Group also improved their existing infrastructural facilities including electricity and water supply systems, and modified the production conditions to facilitate bacteria-free production processes. At the end of the year 2004, the Group constructed a sophisticated bacteria-free seafood processing workshop and related water treatment facilities where higher-valued frozen marine food products are processed. It is expected that the Group's overall productivity will be enhanced by approximately 30% with these new facilities in place.

## Excellence of Raw Materials Sourcing Base

During the year, the Group's technicians coached farmers from the Bei Hai, Guangxi aqua farm on a daily basis to conduct tests such as monitoring the temperature, proportion, and quality of water and controlling the density of cultivation and breeding; such appropriate measures ensure the raw materials are maintained in excellent condition during the cultivation period and also enhanced the raw material survival rate by approximately 1.0 to 1.5 times. This leased aqua farm at Bei Hai, Guangxi has supplied shellfish to the Group since October 2004. Together with the existing raw materials sources, the total supply of raw materials will be sufficient for the Group to meet its anticipated production volume in 2005.

## Enhancing Human Resources and Management Quality

With continuous development and expansion, the Group is mindful of a "human oriented" management philosophy to improve the quality standard of its workers and cultivate the workers' potential, for the purpose to allow each and every worker to contribute their best and bring the Group's business to the next level.

The Group hired the most established human resources management consultant in the PRC — KaiYue Management Consultants (Xiamen) Limited (開鋭管理諮詢(廈門)有限公司) ("KaiYue"), a subsidiary of Singapore-based Kent Ridge Consulting Pte. Ltd., to assist in the establishment of a human resources policy, staff training, recruitment, evaluation, and personnel retention, in April 2004.

KaiYue set up a comprehensive human resources management system, comprising of recruitment, selection, training, talent development, evaluation, and remuneration. KaiYue pushed the Group's management forward and developed an excellent management team. As a result, the Group's staff turnover was reduced. Other benefits included positive staff morality, improvement in internal communication and enhancement of staff creativity. With the positive contribution from KaiYue, the Group did realize higher recognitions from its customers. This management consulting project was completed in December 2004. In pursuit of maximizing the effectiveness of the staff management, the Group has determined to hire KaiYue as a human resources consultant.

## Prospects

In the year of 2004, the Group is in a leading position of the food processing industry within Fujian province, in terms of export sales to overseas markets, the growth of turnover was over 15% compared with last year. Looking forward, the Group will focus on the launch of "higher-end products", formulation of a "cooperative marketing strategy" and "improvement of its production facilities".

## Higher-end Products

The Group has identified the higher-end marine food products as its new market focus because these products enjoy high profit margins, which help to drive the Group's sales and profitability in the future.

In addition, there is a huge demand for high-end marine food with beauty and health-care benefits including flying fish roes and sea urchins, in the international markets. Consumers in countries such as Japan, the US, and Germany view sea urchins as a premium health food, and therefore such high-end marine food enjoy great popularity in those markets. More importantly, the Group is motivated by a new client Nisshin International Corporation ("NIC 株式會社"), which owns 80% market share of the Japanese sea urchins market, has been importing sea urchins from South American countries. As the quality sea urchins from the PRC are relatively cheaper, the Group therefore intends to step into the processed sea urchins product market on a gradual basis. With the higher profit margin of these marine foods, the Group expects this new product line to lift the Group's overall profit level significantly.

## Profit Potential in New Delicacies

A series of brand-new frozen spring rolls are 100% hand-made and ready-to-serve after heating with a microwave or oven. Currently, the Group has entered into long-term purchase agreements to deliver a total of 1,000 tons of frozen spring rolls to **Jun Pacific (QLD) Pty Ltd** in Australia, **JFC New Zealand Ltd.** in New Zealand, **Japan Foods Trading Ltd.** in Japan, and **JFC Internationals Inc.** in the US.

For frozen seasoned convenient food products, the Group's marketing department has been undertaking intensive market research on convenient food packs. Through the participation of food exhibitions, the Group grasped every opportunity to assess the feasibility to enter into the convenient food business. For this purpose, the Group completed its trial production of other frozen seasoned food products during the year, and prepared to commence mass production in 2005.

## Cooperative Marketing with Major Customers

The Group plans to adopt a new cooperative marketing strategy with its top customers such as Panapesca, Maruha, Pacific Trading Co., Ltd. (太平洋貿易有限公司) and Azuma Shoji Co., Ltd. (東商事株式會社). Cooperative marketing involves the joint product development process from their technical teams, and joint marketing efforts from their marketing teams. This will elevate the simple "buy-sell relationship" to a "closely strategic alliance relationship", through which the Group and its customers will share a common goal in achieving supernormal return. The benefits generated from this strategic relationship such as improving the management process, shortening the communication cycle, and effectively expanding the end consumer base.

In Hong Kong, the Group has traded with Great Asia Japanese Food Co., Ltd. (大亞日本食品有限公司) which is a large scale of amalgamated Japanese food distributor and owns its Japanese restaurants. Taking the advantage of its extensive distribution networks, the Group will endeavor to enhance the strategic relationship with it.

## Improvement of Production Facilities

At present, the Group has a total of seven modern production lines in four workshops, the overall annual production capacity is reaching about 19,000 tons.

To cope with the requirements for high value food processing, the Group will further improve and expand its bacteria-free environment, sealing function and water treatment function in order to carry out bacteria-free seafood processing. Furthermore, the Group will also revamp its old cold storage room and implement with a temperature control system to monitor the temperature and humidity level.

## Liquidity, Financial Resources and Capital Structure

As at 31 December 2004, the Group's total borrowings were approximately RMB131,176,000. They included a 3-year term loan from Hong Kong and Macau banks with the outstanding balances of approximately RMB52,470,000, 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% per annum. The Group had term loans of approximately RMB41,500,000 from a PRC bank and were charged at a fixed rate at 5.841% per annum.

As at 31 December 2004, the Group maintained a gearing ratio of 16% (2003: 23%). The ratio is computed as interest bearing liabilities divided by total assets.

The Group issued US$4,500,000 (equivalent to approximately RMB37,206,000) coupon bonds with warrants attached due on 9 April 2008. The issues of the coupon bonds were divided into 4 tranches. Each "A Bond" and "B Bond" were in the nominal amount of US$1,350,000 while the "C Bond" and "D Bond" were 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.

As at 31 December 2004, the bondholders had not exercised their rights to redeem the "A Bond" and accordingly the redemption date for tranche "A Bond" was extended. Pursuant to the terms of the subscription agreement under which the bonds were subscribed, the Company is, subject to having obtained all relevant approvals, required to issue additional warrants in the equivalent amount of US$1,350,000 in circumstances where the redemption date is extended. The Company has not yet issued the additional warrants to the bondholders. For this reason, the bondholders may require the Company to redeem all the bonds in the aggregate amount of US$4,500,000 on demand.

Accordingly, the maturity profile for the Group's total borrowings was as follows:

| | |
|---|---|
| Within 1 year | 77 % |
| After 1 year but within 5 years | 23 % |

On 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 31 December 2004, the unused proceeds were approximately HK$20,000,000 (equivalent to approximately RMB21,200,000) and were 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 placement were sufficient to meet the operations, capital commitment and authorization.

## Treasury Policy

As at 31 December 2004, the Group had cash and cash equivalents of approximately RMB494,950,000. The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong. Such a higher liquid cash management allows the flexibility to the Group's working capital requirements.

## Employees and Remuneration Policy

As at 31 December 2004, the Group had approximately 700 employees (2003: 530 employees). 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 year under review, the total staff costs of the Group were approximately RMB9,658,000 (2003: RMB8,339,000).

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. No options were granted by the Company under the 2002 Scheme.

As at the date of this report, the Company has already granted 33,000,000 share options to the directors and employees under the 2004 Scheme.

Tailor-made training programs relating to food processing industry are provided to staff in our PRC plant. The Group provided annual health check to workers. A quarter unit also provided to the majority of workers as the labor welfare.

## Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 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 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.

## 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 2004, the Group's commitments in respect of assets acquisition described in note 31 to the financial statements.

## Charges on Assets

As at 31 December 2004, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

## Contingent Liabilities

As at 31 December 2004, the Group had the contingent liabilities described in note 32 to the financial statements.