MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31 December 2005 and the year ended 31 December 2004 for comparison purpose)

For the year ended 31 December 2005, the Group recorded turnover and gross profit of RMB432,652,000 (2004: RMB434,122,000 (restated)) and RMB200,792,000 (2004: RMB198,420,000 (restated)) respectively. Profit attributable to shareholders amounted to RMB113,461,000 (2004: RMB119,853,000 (restated)). It was admitted that the Group's performance was inevitably affected by the temporary restriction on the export of roasted eels, the appreciation of Renminbi and the rising costs of some marine products. The Group's turnover and its earnings were dropped by 0.3% and 5.3% respectively in comparison with the period in 2004. In reliance to the Group's strong team spirit and solid business foundation laid over the years, the overall results were tremendously mitigated. Furthermore, the Group has been creating certain new opportunities which imminently turnaround its current performances and even better enhance greater return to its shareholders.

FROZEN MARINE FOOD PRODUCTS

Turnover of frozen marine food products was approximately RMB239,177,000 (2004: RMB227,394,000 (restated)), which represented about 55% of the Group's total turnover for the year ended 31 December 2005. Benefited from the customers' increasing awareness on food safety, the sales orders of shellfish products surged with the total turnover of frozen marine food products was significantly increased by 5.2% in comparison with last year.

FROZEN FUNCTIONAL FOOD PRODUCTS

Turnover of the frozen functional food products amounted to approximately RMB186,797,000 (2004: RMB206,068,000 (restated)), which represented about 43% of the Group's total turnover. The short-term suspension of export of roasted eel products inevitably affected the turnover during the year under review. After the incident, the Group has gradually restored the customers' confidence on its high-quality roasted eel products and the sales of such products have increased as well. Other products also recorded satisfactory results.

FROZEN SEASONED CONVENIENT FOOD PRODUCTS

Turnover of frozen seasoned convenient food products was approximately RMB6,664,000 (2004: RMB660,000 (restated)). The Group has rolled out microwaveable vegetarian and seafood spring rolls to overseas markets. In line with the market expectation for these frozen seasoned convenient food products, the Group will continue to develop more innovative convenient food products such as convenient rice meal packs, which will become the Group's profit momentum in the future.

REFRIGERATED PROCESSED MEAT PRODUCTS

During the year under review, the Group had turnover from refrigerated processed meat products RMB14,000 (2004: nil (restated)).

GEOGRAPHICAL ANALYSIS

Japan and the US continued to be the two largest export markets of the Group. Taking into account of the suspension of roasted eel products, turnover from the Japanese market was dropped to approximately RMB264,895,000 (2004: RMB289,400,000 (restated)), accounting for about 61% of the Group's total turnover and representing a slight drop of about 8.5% as compared with the corresponding period in 2004. Conversely, the turnover in the US market recorded a robust growth in shellfish products and posted an ever-highest record. Turnover reached approximately RMB132,383,000 (2004: RMB121,776,000 (restated)) which accounted for about 31% of the Group's total turnover. Turnover from other segments was approximately RMB35,374,000 (2004: RMB22,946,000 (restated)) and represented about 8% of the Group's total turnover. Such changing patterns of turnover from different geographical markets implicitly reflected the Group's prompt responses in adjusting market tactics.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. Strong Business Growth in the PRC Marine Products

In terms of the export of PRC marine products, it recorded a strong upbeat with an annual growth rate exceeding 16%. According to the research, the export of the PRC marine products reached 3,153,000 tons in 2005, representing a growth of 12.4% as compared to 2004; and the total export amount grew by 13.2% to US$7,888,000,000 in 2005, making up about 28.6% of the total export of the PRC agricultural products. To date, the total export amount of the PRC marine products accounted for approximately 10% of that of the marine products in the world. This led the PRC to become the largest exporter in terms of the amount of marine products since 2002.

Fujian province is one of the key regions in production of marine products in the PRC, in terms of production capacity, its ranking is in the third place. Currently, its production capacity of frozen marine products accounted for 42% of the aggregate of nationwide processed marine products output.

2. Guaranteed Food Safety

Amidst the "Malachite Green" incident resulted in temporary ban of eel products exported from the PRC in the second half of 2005, the Group had actively intensified its safety control over the live eel suppliers. The Group's integrated research and development (R&D) centre has further enhanced the inspection tests on chemical residuals. More effectively, the Group has used the special gas chromatography and liquid chromatography techniques to detect other hazardous substances (e.g. Norfloxacin, Chloramphenicol, Malachite Green, Oxolinic Acid, etc.)

Under these stringent measures, the Group's roasted eel products have not been found any harmful substances violating the safety standards of the PRC or other countries. As such, the Group was approved to resume the export of roasted eel products in Fujian province and the Group's roasted eel production restored back to normal immediately. After this incident, the Group believes that the production of high-quality and safety products is the determinant factor in the long-term business development.

3. Effective Risk Management

The Group has increased product diversity by creating high value-added and fully standardized features to manage operating risks effectively. For example, the intensive sales efforts of marine products in the US and Japan markets resulted the ever-highest sales records for the shellfish and monkfish livers in the year of 2005. More importantly, the major reasons attributing to the satisfactory performance were the Group's price adjustment mechanism and enhancement of productivity rate. In addition, the Group has established close ties with customers by means of collecting their opinion on its products through regular meetings. As a result, the sales of shellfish and monkfish livers increased apparently and helped to replenish the loss incurred by the restriction on roasted eel production.

For the specialized seasoned convenient products, the Group exported the microwavable vegetarian spring rolls and shrimp rolls to JFC and its worldwide trading offices. During the year, these products recorded steadily growth in terms of sales. This was mainly attributed to the Group's effective control over the raw material production base, which was an obvious competitive advantage among the industry peers and laid a firm foundation for the Group's long-term development.

4. **Leading Industrialized Enterprise**

With the competitive edge of the modern laboratory and the state-of-the-art facilities, the Group's products are credited with the modernized and scientific inspection. During the year, the Group continued to allocate abundant resources to enhance its food inspection, so as to ensure that the products have reached the international safety standard. Undoubtedly, these edges created new business opportunities for the Group.

In terms of corporate development, the Group has been accredited an honorable recognition of "Leading Industrialized Enterprise of Marine Products in Fujian Province" for three consecutive years. Basically, this honor represented a successful establishment of the Group's brand awareness and social recognitions in the market.

PROSPECTS

As the extreme adverse effects induced by the "Malachite Green" incident in eel products have been subsided and the Chinese currency has become relatively stable recently, the Group will continue to focus on the following breakthroughs in pursuit of profit maximization.

1. **An Imminent Profit Driver**

In August 2005, the Group entered into a mutual agreement with the US-based Select Brands USA LLC on the convenient rice meal pack project. With its business savvy into the US market and renowned brand name of its products, Select Brands USA LLC will be responsible for the market promotion of this project. During the preparation stage, several prototypes have been completely recognized by clients and order bookings have been secured up to 2008. As these convenient rice meal packs require an extreme high standard of food safety, the Group invested approximately RMB11 million to add two production lines, high-temperature germs-killing pots, stirring machines, milling machines, sealing machines as well as other ancillary facilities in the production plant.

The production of convenient rice packs will be commenced in the first half of 2006. Primarily, the Group plans to produce three kinds of products, namely rice topped with beans, steam rice in pouches, and rice topped with fish. The Group will then continue to develop up to 6 to 10 kinds of convenient rice pack products such as rice topped with shrimps, rice topped with shellfish, seasoned rice and fried rice in the second half of 2006. In the perspective of economies of scales, the Group intends to raise the annual production capacity from 5,000 tons to 10,000 tons within two years. To cope with the launch of these premier products, the Group has entered into an agreement with the "Fujian Forestry University and Provincial Fisheries Research Centre" to provide technical support for the project. The research centre will help to update technical information on the production and recommend the acquisition of suitable equipment. This arrangement enables the Group to provide more competitive products to the market. Undoubtedly, the convenient rice pack will become a new and strong profit driver for the Group.

2. Hallmark of Food Safety

The concept of "Green" food and technical issues are the two major barriers for roasted eel products exported from the PRC in the international markets. In particular, the Japanese authority has implemented a series of apparent discriminatory policies such as increasing the number of drug residual inspection items and setting an extraordinary low limit of inspection level. As such, the Group has undertaken various proactive measures to overcome technical barriers. Firstly, the Group selected the eels from sea-water breeding farms where the Group not only closely monitored the whole breeding process but also absolutely banned the usage of chemical feeds that are not allowed to be used in the PRC and conducted inspection on a regular basis. Moreover, the Group also invested approximately US$540,000 to install a new set of WATERS LC/MS/MS System from US-based WATERS in March 2006. This system is the most sophisticated inspection facility of drug residual, with inspection level up to 0.5-1ppb. Due to the high set-up costs and substantial expenses for this advanced inspection equipment, there are now only a few companies in the PRC installing this equipment.

The effect of the Post-Malachite Green incident is the over-demanding of high quality eels in a short-term period. As such, the Group leased a sea-water eel breeding farm at Fuqing JiangYin Town in November 2005 and the lease term is 10 years from 2005 to 2015. Such a massive farm occupies approximately 74 hectare where drainage systems and dams have been in place for eel farming. The natural sea-water breeding farm is necessarily providing an ideal environment for the production of high-quality eels, and thus no chemical feeds and drugs are used during the breeding process at the farm. The farm is expected to supply 50% of the total production volume of eels in 2006. Meanwhile, Japanese customers are keen on these natural-breeding eel products. As such measures are not only strengthening clients' confidence on the Group's products significantly, but also allowing the Group to secure orders from the clients at a higher price than the conventional eel products.

3 More Innovation of Novel Products

Upon the request from the US-based client — Select Brands USA LLC, the Group has developed a series of seasoned tuna products. Overall, other different flavors like smoked, spicy, lemon, curry and garlic have been successfully formulated and the Group's prototypes have been recognized by the clients. Presently, these products are mainly imported originally from Japan, Taiwan and Thailand, and no similar kinds of products are manufactured in the PRC.

Technically, these specialized products share a common production flows with the convenient rice meal packs, which allows the reduction of the initial investment outlays. It will be necessary that the Group's expected returns will be greater than the related capital investments, and the results will be unveiled in the second half of 2006. Looking ahead, the Group is committed to undertake the project whenever there is any favorable results, in order to bring promising returns to shareholders.

4. Market Intelligence for Future Development

A comprehensive business development requires the Group to update the latest information of international food processing and market demand in a timely manner. As such, the Group has reached an Information Service Agreement with Interface Protein Technology, Inc. USA ("IPT"). IPT will provide the latest international food processing technology, market development, price information, market forecast, corporate development, standard of regulations and relevant professional information service to the Group periodically. Such collaboration facilitates the Group to have a thorough and in-depth understanding of the marine product market and the latest food processing technology, in particular the US market. The Group can also make use of the information to understand the convenient rice market for the sake of its long-term development.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2005, the Group's total borrowings were approximately RMB103,117,000 (2004: approximately RMB124,511,000 (restated)). They included a 3-year term loan from Hong Kong and Macau banks with the outstanding balances of approximately HK$28,500,000 (equivalent to approximately RMB29,640,000) (2004: approximately RMB52,470,000), and this term loan was subject to the floating rates at 1.75% over 3-month HIBOR rate. The Group also had term loans of approximately RMB41,500,000 (2004: approximately RMB41,500,000) from a PRC bank and were charged at a fixed rate of 5.841% per annum.

The Group had coupon bonds of approximately RMB31,977,000 (2004: approximately RMB30,541,000 (restated)). Coupon Bonds together with detachable warrants scheduled to be due on 9 April 2008. The issues of the coupon bonds were divided into 4 tranches. Each "A Bonds" and "B Bonds" were in the nominal amount of US$1,350,000 while the "C Bonds" and "D Bonds" 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.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period year ended 31 December 2005, the bondholders had not exercised their rights to redeem the "A Bonds" and " B Bonds". As such, the redemption dates for tranche " A Bonds" and " B Bonds" were automatically extended to 9 April 2006 and 9 April 2007 respectively. Pursuant to the terms of the subscription agreements under which the bonds were subscribed, the Company was, subject to having obtained all relevant approvals, required to issue additional warrants in the equivalent amount of US$2,700,000 (equivalent to approximately RMB22,324,000) in circumstances where the redemption dates were extended. Accordingly, the Company convened a special general meeting of the shareholders ("the SGM") and an extraordinary meeting of the warrantholders ("the EGM") of the Company to approve the issue of the additional warrants. The resolution to approve the issue of additional warrants was not passed at the SGM although it was passed at the EGM. Therefore additional warrants have not been issued. According to the offering circular under which the bonds were issued, the bondholders can require the Company to redeem the bonds on demand. The Company has received demands from certain bondholders to redeem some of the bonds and the Company is in discussion with the bondholders who are alleging that the Company is obliged to issue to them the additional warrants. As up to the date of this report, the Company has not redeemed any of the bonds, including the "A Bonds" which were due for redemption on 9 April 2006. All bonds are therefore, classified as current liabilities in the financial statements.

As at 31 December 2005, the Group's borrowings will be due within 1 year. The Group has a gearing ratio of 12% (2004: 16%). The ratio is computed as interest bearing liabilities divided by total assets.

The directors are of the opinion that the financial resources available to the Group included the internal generated funds, bank borrowings, which are sufficient to meet the operations, capital commitment and authorization.

TREASURY POLICY

As at 31 December 2005, the Group had cash and cash equivalents of approximately RMB 582,185,000 (2004: approximately RMB494,950,000 (restated)). The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong for the purposes of the Group's working capital requirements and funding its capital expenditures.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2005, the Group had approximately 650 employees (2004: 700 employees). The Group's employees are 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 RMB10,141,000 (2004: RMB9,658,000 (restated)).

The remuneration of the executive directors and non-executive directors are determined by reference to their duties and responsibilities with the Group and the market rate. The remuneration scheme includes directors' fee, basic salaries, discretionary bonus and share option.

As at 31 December 2005, the Company has already granted 33,000,000 share options to the directors and employees under the 2004 Scheme. No exercise of the granted share options has been lodged during the year of review.

Tailor-made training programs relating to food processing industry were also provided with staff in our PRC plant and annual health check to workers. Most of them were also offered the quarter units in the plant premises as the labor welfare.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

For the year ended 31 December 2005, the Group conducted its business transactions principally in US dollars and Renminbi ("RMB"). The Group had not experienced any material difficulties or negative effects on its operations as a result of fluctuations in currency exchange rates. Despite the appreciation of RMB had affected the Group's total revenue, it also reduced the borrowing costs incurred in terms of foreign currencies. Overall, the impact was very limited. In this respect, the Group 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 2005, the Group's commitment in respect of assets acquisition described in note 33 to the financial statements.

CHARGES ON ASSETS

As at 31 December 2005, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group (2004: nil).

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had the contingent liabilities described in note 34 to the financial statements.