Financial Review

For the year ended 31 December 2006, the Group recorded turnover and gross profit of approximately RMB545,739,000 (2005: approximately RMB432,652,000) and approximately RMB248,527,000 (2005: approximately RMB200,792,000) respectively. Profit attributable to shareholders reached approximately RMB138,006,000 (2005: approximately RMB113,461,000). In comparison with the Group's turnover and its earnings between 2006 and 2005, it is noted that robust increases were approximately 26% and approximately 22% respectively. The Group's outstanding performance was mainly attributable to the growing stronger marine food exports sentiment and persistent increases of its output for the value-added products to satisfy the customers' surging demand. During the year under review, the Group not only accomplished entire facilities enhancement but also commenced to undertake several expansion projects. The benefits from the expanded operations necessarily guaranteed the Group's revenue, gross profit margin and profit grow in a sustainable manner.

Business Review

Industry Overview

The import and export of PRC marine products was continued to grow in 2006. The total import and export volume was 6,337,000 tons while the amount reached US$13,660,000,000. The export of marine products recorded a strong upbeat with volume of 3,015,000 tons and amount of US$9,360,000,000, representing increases of 17.4% and 18.7% respectively as compared to 2005. Japan, Korea, the US and the EU remained the key export markets of the PRC marine products, which accounted for 88.6% of the total export volume of PRC marine products, which was comparable to 2005. Leveraging on the varieties of products, abundant of raw materials and superior quality, the export of PRC marine product grew by 11.8%, which was driven by the cultivated marine products, such as prawn, shellfish, tilapia and Ictalurus punctatus. In terms of price competitiveness, the consolidated average price of export marine products was US$3,104 per ton in 2006, which was also comparable to 2005. Notably, the price of shellfish products was surged by 12%.

Shandong, Guangdong, Liaoning, Zhejiang, Fujian and Hainan were the top six provinces exporting marine products in 2006, which accounted for 91.2% of the total export volume. According to the figure of the PRC Customs, the export amount of Fujian Province marine products increased by US$189,000,000 to US$1,044,000,000, representing an increase of 22.06% as compared to 2005 whereas the export of roasted eel increased by 2,127 tons to 23,900 tons, representing an increase of 9.79% over 2005.

Business Analysis

(1) Frozen Marine Food Products

During the year under review, turnover of frozen marine food products was approximately RMB292,816,000 (2005: approximately RMB239,177,000), representing approximately 54% (2005: approximately 55%) of the Group's total turnover for the year ended 31 December 2006. It recorded an increase of approximately 22% over 2005, and which was resulted from the Group's stringent inspection requirements and its monitor system persistently applied to the shellfish. It also paid further expansion on its market share and greater confidence from its customers. Technically, the Group also engaged independent professional safety inspection expertise to carry out the inspections in order to guarantee high product quality.

(2) Seasoned Convenient Food Products

During the year under review, turnover of seasoned convenient food products was approximately RMB16,743,000 (2005: approximately RMB6,664,000). It accounted approximately 3% of the Group's total turnover. As the Group has committed to deliver quality rice and tuna convenient products, it devoted to improve the production technology by means of the cooperation with the Food Study Centre of Fujian Agriculture and Forestry University and Interface Protein Technology Inc. USA including research and development, the latest development trends of new products and technology in oversea market. It enables the improvements of the Group's products in terms of flavor, formulae, technology and package designs and maintains its products' competitiveness. As a result, the Group outperformed in terms of quantities and qualities which met with the customers' expectation.

(3) Frozen Functional Food Products

The Group is inevitably to face the higher food safety requirement from the Japanese authority, namely "Positive List System", a new requirement promulgated in May 2006. To overcome the impact on the Group's business, the Group purchased a number of high potency chromatography devices and upgraded the operation systems to raise the standard to chemical residue accurately. Furthermore the Group's research & development (R&D) team had successfully developed a new production technology which is able to strengthen the texture of roasted eels and to cater the customers' flavor. Shanghai Lexinyuan Trading Company Limited, a trading agent in the PRC, also increased its sales order principally on the Group's eel products. Sea-water eels had supplied approximately 60 tons of raw materials to the Group in 2006. It is highly likely the sea-water eels farm is able to supply up to approximately 300 tons to meet the orders from an exclusive customer, namely Sugamiya Company Limited in 2007. Given excellent track record, the Group was chosen to be inspected by the US Food and Drug Administration (FDA) and the result was again proved to reach internationally-recognised standard. Taking into account of these positive factors, the turnover of frozen functional products recorded consecutive growth, it recorded approximately RMB236,180,000 (2005: approximately RMB186,797,000), representing approximately 43% (2005: approximately 43%) of the Group's total turnover. It surged approximately 26% in comparison to the turnover in 2005.

(4) Refrigerated Processed Meat Products

During the year under review, the Group had neither produced refrigerated processed meat products or generated its revenue (2005: approximately RMB14,000).

Cost Control

The overall gross profit margin slightly dropped because certain number of raw materials were variably fluctuated. For this reason, the Group implemented several cost control measures to maintain stable profitability. First, the Group optimized the production volumes in stable supply of quality raw materials. Second, raw materials were bulk-purchased from ports directly to reduce the transportation cost. And even the Group reduced products with greater cost variables in the production, in terms of the pricing and vicious competition of raw materials. In addition, the Group also improved the production facilities to lower the production costs and to increase the productivity.

Quality Control Technology

In respect of the product inspections, the Group upgraded the software of existing inspection facilities and subscribed advanced Water 2695 operation system. Based on computerized identification system, the level of microorganisms contained inside the product can be detected without damaging the package. The advantage of this technology not only avoids damaging the product package, but also enhancing the confidence of quality control.

Fundamental Facilities Enhancement

In line with the enlargement of production capacity, the Group invested approximately RMB65,000,000 to improve the fundamental facilities in Fujian plants, such as frozen storage warehouse, production facilities, water supply and electricity system. Most of these facilities had been operated since the end of 2006. The application of low-temperature freezer in high temperature storage room was to increase the storage for end products and improve the facilities. The improvement of production facilities was mainly to enhance the plant environment, paving, pipeline and sewage discharges. For the water supply and electricity system, the Group adopted not only the latest hollow purify water filtering processing technology but also 40Ton/Hr speedy filtering equipment, so as order to ensure the water quality reach the standard; meanwhile, the Group also enlarged the electricity system. As a result, both productivity and utility rate have been greatly increased, which strengthens the robust foundation for further expansion of the market share. Currently, the Group has four production workshops in total with total production capacity of approximately 27,000 tons.

Prospects

With the enormous population, the PRC has a large consumer base which provides ample growth opportunities for the food industry. The Group is well-positioned to capture the business opportunities ahead. Moving forward, the Group continues to accomplish the following investment projects which have committed. The purposes of those projects include expanding production scale, exploring the PRC's sales network, as well as strengthening the R&D of new products.

(1) Beating the Market of High-Temperature Product

It is another praiseworthy example, as a versatile food processor, the Group was accredited the recognition of Kosher Certification from Orthodox Union Kosher Certification Department. Under this circumstance, four of the Group's tuna products have already obtained recognition from Jewish community and would enter into the North American market through Orbit Brands LLC.. The Group entered into new sales agreements with Orbit Brands LLC to subscribe approximately 500 tons of rice and approximately 500 tons of tuna in 2007 while Select Brand USA LLC will subscribe approximately 200 tons of rice and approximately 200 tons of tuna. To cope with the expansion of high-temperature products, the Group purchased two new production lines to increase the processing capacity of high-temperature convenient foods. These production lines have been modified to enhance the efficiency of the production process. The computerized intelligent control system has been applied to control the temperature, humidity and time in an accurate manner. The system can also be adjusted flexibly according to the user requirement and raised the storage up to three times. The new production lines will be installed in the new workshops. After that, the total production capacity is expected to be double to the existing production capacity. Furthermore, the Group strives to modify the packaging of certain high-temperature convenient food products with aluminum packaging in order to raise the product standard to well cater the consumer demand.

(2) New Workshop in Fuqing

The construction works of the new integrated processing workshop in Fuqing has been completed in earlier 2007 and the renovation work is undertaking since then. The plant is anticipated to be completed in the second half of 2007. Within this new workshop, a two-storey high advanced frozen storage room will be installed and its functionality reaches international standard. High-temperature foods facilities will also be built in the workshop. Furthermore, the Group is planning to invest approximately RMB16,000,000 on certain advanced food processing production lines and supporting facilities, for example modern processing production lines for frozen marine foods, packaging facilities, high-temperature autoclave sterilizers, and IQF monomeric instant freezing system.

(3) Rice Farm Base

Benefiting the cost and quality from the leased production bases, in February 2007, the Group recently leased a 5,000 mu organic rice crop farm for 10 years. The base is located in zone 5 Honghe farm, Heilongjiang Province (黑龍江省農墾總局建三江分局洪河農場第五作業區), where the Group will construct production plant and purchase related facilities. The farm is expected to supply organic rice crop by the end of 2007. The Group had conducted a series of sample testing on rice crop from the base in order to ensure export requirements being met. Given the stable supply of high quality raw rice caters the Group's long-term development, it helps the Group's products to launch in the market successfully.

(4) Fishery Processing Plant

Since the fishery processing plant is chosen to be located at a nearby port in Zhejiang Province, the Group had carried out fundamental studies to ensure that a large-scale frozen fishery paste production plant and related environmentally conservation facilities are feasible to be built. Construction works had commenced in 2006 and anticipated to be completed by the end of 2007. It is estimated that approximately RMB170,000,000 will be invested on modern food processing production plant. Besides, the Group will also be benefited from the opening of the new roadwork by the end of 2007. This allows the Group to reduce the transportation costs and maintain the quality of raw materials such as monkfish liver, squid and octopus.

Grand Opening "Longyu" Retail Shops

In pursuit of the PRC market, the Group will open the first "Longyu" chain shop in Pudong, Shanghai, by May 2007. In line with the Group's positioning as a medium to high end food provider, "Longyu" retail shop will sell various products, including shellfishes, seafood, fish livers, roasted eels, eel slices, flying fish roes, fishery paste, duck meats, tuna, spring rolls, Indian pizzas and squid slices, to meet its customers expectation.

Developing New Products

Differentiation is the key to success. The Group has strong research and development capability which ensure to launch new products every year. The Group's new product development has been relying on the cooperation with the Food Study Centre of Fujian Agriculture and Forestry University and Interface Protein Technology Inc. USA. Its objective is increasing the protein utility rate and developing the value-added nutritious convenient marine food products. Mixed seafood packs and North Pacific squid series will be launched in the first half of 2007. More importantly, in the first quarter of 2007, three new customers, namely Toho Co., Ltd., Mandai Co., Ltd., and Uohide Co., Ltd., had collectively placed their purchase orders of approximately 500 tons of the Group's products, including the roasted eels, mixed seafood packs and North Pacific squid series.

The Group remains cautiously optimistic about the prospects of markets and business for the coming years, it is also well-prepared for any possible challenges. The Group will continue to be dedicated to business expansion by capitalising on its own strengths and product innovation, to achieve its goal of maximising profitability and in pursuit of growth and excellence.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2006, the Group's total outstanding borrowings were approximately RMB389,695,000 (2005: approximately RMB103,117,000). The balances comprised two 3-year term loans, revolving term loans and convertible notes. Included two 3-year term loans the aggregate outstanding balances were approximately RMB196,370,000. They were subject to floating rates on 1.25% and 2% over 3-month HIBOR respectively. The total outstanding balance of revolving term loans amounted to approximately RMB98,336,000. Amongst those revolving loans, the PRC revolving term loans were charged at a fixed rate of 5.85% per annum and others were charged at 2.75% over 1-month HIBOR and 1.75% over 3-month LIBOR respectively. The Group had issued a convertible notes in respect of the principal amount of approximately HK$116,000,000 (approximately equivalents to RMB115,562,100) with 3% coupon rate per annum and is payable on a half-yearly basis. The tenor of convertible notes is 5 years. The convertible notes will be convertible into conversion shares at the initial conversion price of HK$0.85 per share, subject to the adjustment contained in the subscription agreement. As at 31 December 2006, the convertible notes of approximately RMB94,989,000 was stated as outstanding liability.

The US$4,500,000 2.5% coupon bonds with detachable warrants attached due on 9 April 2008 were issued on 10 April 2003. On 31 July 2006, the Group repaid the amount of approximately RMB36,416,000, including interest accrued thereon and redeemed all outstanding coupon bonds. As at 31 December 2006, the number of outstanding warrants was 470 warrants and the exercise price was HK$0.295 per share, subject to adjustment. The warrants will be due for exercise on 9 April 2008.

As at 31 December 2006, the Group has a gearing ratio of approximately 29% (2005: approximately 12%). The ratio is computed as interest bearing liabilities divided by total assets.

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

Within 1 year	25%
After 1 year but within 5 years	75%

Treasury Policy

As at 31 December 2006, the Group had cash and cash equivalents of approximately RMB673,797,000 (2005: approximately RMB582,185,000). The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong. The purposes of this cash management give the flexibility to the Group to meet its working capital requirements and funding its capital expenditures.

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

Employees and Remuneration Policy

As at 31 December 2006, the Group had approximately 670 employees (2005: approximately 650 employees). The Group 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 in the Group's contribution to the state sponsored retirement plan.

During the year under review, the total staff costs of the Group were approximately RMB18,139,000 (2005: approximately RMB10,141,000).

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 options.

As at 31 December 2006, the Company has already granted 70,500,000 (2005: 33,000,000) share options to the directors and employees under the 2004 Scheme. About 26,670,000 share options have been exercised during the year of review.

Tailor-made training programs relating to food processing technology were provided to staff in our PRC plant and annual health checks were also provided to the workers. In addition, most of them were offered the quarter units in the plant premises as a labor welfare.

Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2006, 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. Due to the ensuing the appreciation of RMB, the Group will closely 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 did it made any material acquisition or disposal of subsidiaries and associates.

Capital Commitments

As at 31 December 2006, the Group's commitments in respect of assets acquisition described in note 33 to the financial statements.

Charges on Assets

As at 31 December 2006, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group (2005: Nil).

Contingent Liabilities

As at 31 December 2006, the Group had contingent liabilities which described in note 34 to the financial statements.