THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular, you should consult appropriate independent advisers to obtain independent professional advice.

If you have sold or transferred all your shares in Pacific Andes International Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

PACIFIC ANDES INTERNATIONAL HOLDINGS LIMITED
太平洋恩利國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1174)

MAJOR TRANSACTION

ACQUISITION OF THE PERUVIAN COMPANIES

* *For identification purpose only*

16 April 2007

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	means the acquisition of the Sale Shares
"Alexandra"	means Alexandra S.A.C., a company incorporated under the laws of the Republic of Peru, the parent company of Pesquera Victor and Pesquera Flor
"Alexandra Shareholders"	means VLC, GLB and VLB
"Balance Consideration"	means the balance of the Consideration for the Sale Shares amounting to US$87 million (approximately HK$679 million), being the aggregate Consideration for the Sale Shares of US$100 million (approximately HK$780 million) after deduction of the US$1 million (approximately HK$7.8 million) installment paid on 19 April 2006 and the US$12 million (approximately HK$93.6 million) installment paid on 12 September 2006
"Balance Payment Date"	means the date on which the balance of the consideration was paid by the Purchaser to the Alexandra Shareholders
"Business Days"	means all days other than Sunday and days on which commercial banks in Lima, Republic of Peru are closed
"Board"	means the board of Directors
"CFGL"	means China Fishery Group Limited, a company incorporated under the laws of Cayman Islands, whose shares are listed on SGX-ST, and an indirect non-wholly owned subsidiary of PAH and the Company
"CFG Singapore"	means CFG Peru Investments Pte. Ltd., a company incorporated under the laws of Singapore and a wholly owned subsidiary of CFGL
"Company"	means Pacific Andes International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, whose Shares are listed on the Main Board of the Stock Exchange
"Completion"	means completion of the Acquisition pursuant to the Share Purchase Agreement

"Completion Accounts"	means the accounts comprising the balance sheets, statements of working capital and profit and loss statements of the Peruvian Companies prepared by the Alexandra Shareholders
"Consideration"	means the consideration for the Sales Shares
"Contingencies"	means all claims against, and liabilities and payment obligations from each of the Peruvian Companies identified during the due diligence exercise performed by the Purchaser on the Peruvian Companies
"Definitive Final Accounts"	means the final accounts of the Peruvian Companies as at 30 September 2006 prepared by the Alexandra Shareholders and subsequently accepted by the Purchaser as the basis for the parties to determine the final adjustments to the Consideration
"Directors"	means directors of the Company
"Enlarged Group"	means the Company and its subsidiaries following the Completion
"FAO"	Food and Agriculture Organisation of United Nations
"FAQ"	means "Fair Average Quality", a product description of fishmeal of which direct hot air is used as the drying process
"Fifth Amendment"	means the fifth amendment to the Share Purchase Agreement dated 1 December 2006 entered into amongst the Purchaser, the Peruvian Companies, the Alexandra Shareholders and CFGL
"First Amendment"	means the first amendment to the Share Purchase Agreement dated 10 July 2006 entered into amongst the Purchaser, the Peruvian Companies, the Alexandra Shareholders and CFGL
"Fishing Law"	refers to Peru's Decree Law No. 25977 – General Fishing Law of 7 November 1992 and its Regulations, Supreme Decree No. 012-2001-PE of 13 March 2001
"FOB"	means the shipping term, "Free On Board"
"Fourth Amendment"	means the fourth amendment to the Share Purchase Agreement dated 24 October 2006 entered into amongst the Purchaser, the Peruvian Companies, the Alexandra Shareholders and CFGL

"GLB"	means Ginette Esther Lumbroso Batievsky, an individual
"GPS"	Global Positioning System
"Grenadine"	means Grenadine Bay Inc., a company incorporated in the Republic of Panama
"Group"	means the Company and its subsidiaries
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	means the Hong Kong Special Administrative Region of The People's Republic of China
"IFFO"	International Fishmeal and Fish Oil Organisation, an international non-profit organisation which represents fishmeal and fish oil producers and related trades throughout the world
"IMF"	International Monetary Fund
"Independent Third Party(ies)"	means independent third party(ies) who is (are) not connected persons of the Company as defined in the Listing Rules and is (are) independent of the Company and the connected persons of the Company
"Latest Practicable Date"	means 13 April 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange
"Main Assets"	means the assets described in the section headed "Main Assets" in this circular
"Main Assets Adjustment"	means adjustment(s) to the valuation of the Main Assets
"N.S. Hong"	N.S. Hong Investment (BVI) Limited, the controlling shareholder of the Company holding approximately 51.4% of its issued share capital as at the Latest Practicable Date

"Olympic System"	means a fishing system under which all licensed participants are entitled to harvest as much as they can within certain particular species of fish during the open fishing season until the total allowable catch for those species as specified by the relevant regulatory authorities, is reached for that fishing season, and no further fishing will be permitted from then
"PAH"	Pacific Andes (Holdings) Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the SGX-ST, and a subsidiary of the Company in which the Company is interested in approximately 65.1% of its issued share capital as at the Latest Practicable Date
"Peruvian Companies"	means Alexandra, Pesquera Victor and Pesquera Flor
"Pesquera Flor"	means Empresa Pesquera Flor de Ilo S.R.L., a company incorporated in the Republic of Peru
"Pesquera Isla"	means Pesquera Isla Blanca S.A., a company incorporated in the Republic of Peru
"Pesquera Victor"	means Pesquera Victor S.A.C., a company incorporated in the Republic of Peru
"PRC"	means the People's Republic of China
"Procesadora Carmen"	means Procesadora del Carmen S.A., a company incorporated in the Republic of Peru
"Purchaser"	means CFG Investment S.A.C., a company incorporated in the Republic of Peru, a wholly-owned subsidiary of CFGL
"Sale Shares"	means 100% of the share capital of Alexandra, and 1,000 shares of 1 Sol each, representing 0.0029% of the share capital of Pesquera Victor
"Second Amendment"	means the second amendment to the Share Purchase Agreement dated 6 September 2006 entered into amongst the Purchaser, the Peruvian Companies, the Alexandra Shareholders and CFGL

"Senior Notes"	means the senior notes in the principal amount of US$225 million (approximately HK$1,755 million) issued by the Purchaser on 20 December 2006, bearing interest at 9.25% per annum and will mature in 2013 unless earlier redeemed pursuant to their terms, with payment obligations under the Senior Notes guaranteed by CFGL and certain of its subsidiaries
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGX-ST"	the Singapore Exchange Securities Trading Limited
"Share(s)"	means ordinary share(s) of HK$0.10 each in the capital of the Company
"Share Purchase Agreement"	the conditional share purchase agreement dated 12 June 2006 (as amended by the First Amendment, the Second Amendment, the Third Amendment, the Fourth Amendment and the Fifth Amendment) entered into amongst the Purchaser, the Peruvian Companies, the Alexandra Shareholders and CFGL in relation to the Acquisition
"Shareholders"	means shareholders of the Company
"Sol" or "S/."	means Nuevo Sol, the lawful currency of the Republic of Peru
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Term Sheet"	means a non-binding term sheet dated 12 April 2006 entered into amongst Alexandra Shareholders, CFG Singapore and CFGL
"Third Amendment"	means the third amendment to the Share Purchase Agreement dated 16 October 2006 entered into amongst the Purchaser, the Peruvian Companies, the Alexandra Shareholders and CFGL
"US$"	means United States dollars, the lawful currency of the United States of America

DEFINITIONS

"VLB"	means Valerie Lumbroso Batievsky, an individual
"VLC"	means Victor Lumbroso Cohen, an individual
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, translation of US$ into HK$ and S/. into HK$ are made for illustration purposes only, at the rates of US$1.00=HK$7.8 and S/.1.00=HK$2.45 respectively.

PACIFIC ANDES INTERNATIONAL HOLDINGS LIMITED
太平洋恩利國際控股有限公司 *

(Incorporated in Bermuda with limited liability)
(Stock Code: 1174)

Directors:
Mr. Ng Joo Siang *(Managing Director)*
Madam Teh Hong Eng
Mr. Ng Joo Kwee
Mr. Ng Joo Puay, Frank
Ms. Ng Puay Yee
Mr. Cheng Nai Ming

Independent Non-executive Directors:
Mr. Lew V. Robert
Mr. Kwok Lam Kwong, Larry
Mr. Yeh Man Chun, Kent

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business in Hong Kong:
32nd Floor
Hong Kong Plaza
188 Connaught Road West
Hong Kong

16 April 2007

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

ACQUISITION OF THE PERUVIAN COMPANIES

1. INTRODUCTION

Reference is made to the announcements of the Company in relation to the Acquisition dated 14 June 2006, 8 September 2006, 18 October 2006 and 15 November 2006, respectively. The Purchaser, the Alexandra Shareholders, the Peruvian Companies and CFGL entered into the Share Purchase Agreement on 12 June 2006 under which the Purchaser agreed to acquire and the Alexandra Shareholders agreed to sell the Sale Shares. Completion took place on 26 October 2006 during which the Alexandra Shareholders transferred the Sale Shares to the Purchaser. The Main Assets were also delivered to the Purchaser on the same day.

The purpose of this circular is to provide the Shareholders with further information relating to the Share Purchase Agreement and the Acquisition, and other information required by the Listing Rules.

* *For identification purpose only*

2. THE SHARE PURCHASE AGREEMENT

The Purchaser, the Peruvian Companies, the Alexandra Shareholders and CFGL entered into the Share Purchase Agreement in relation to the Acquisition on 12 June 2006.

Parties

1. Alexandra Shareholders as the vendors

2. CFG Investment S.A.C. as the purchaser

3. CFGL, as the guarantor of the Purchaser, provides a guarantee in favour of the Alexandra Shareholders in respect of the performance of the obligations of the Purchaser under the Share Purchase Agreement

The Purchaser and CFGL are non-wholly owned subsidiaries of the Company.

The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, each of the Alexandra Shareholders and the Peruvian Companies is an Independent Third Party.

Amendment Agreements

Subsequent to the Share Purchase Agreement, the Purchaser, the Alexandra Shareholders, the Peruvian Companies and CFGL entered into five amendment agreements to the Share Purchase Agreement on 10 July 2006, 6 September 2006, 16 October 2006, 24 October 2006 and 1 December 2006, respectively.

First Amendment

The First Amendment dated 10 July 2006 was primarily to correct certain typographical errors in the Share Purchase Agreement including the passport number of one of the Alexandra Shareholders.

Second Amendment and Due Diligence

The Second Amendment dated 6 September 2006 was primarily a mutual confirmation between the parties to continue with the Acquisition in that:

(A) the Purchaser confirmed it had conducted due diligence on the legal and accounting situations of the Peruvian Companies and the operational conditions of the Main Assets, and that the amount of Contingencies identified from the due diligence review was less than US$2.5 million (approximately HK$19,500,000);

(B) the Purchaser agreed to waive all the identified Contingencies, such Contingencies being less than US$2.5 million (approximately HK$19,500,000), which was consistent with the terms and conditions of the Share Purchase Agreement;

(C) the Purchaser agreed, based on the results of the due diligence review, to continue with the Acquisition and was deemed to have issued a notice of continuation to the Alexandra Shareholders as an indication of its intention to proceed with the Acquisition; and

(D) the Alexandra Shareholders were also deemed to have delivered to the Purchaser a notice of confirmation, as a result of which, starting from 6 September 2006, the Alexandra Shareholders commenced preparation of the preliminary Completion Accounts for the Acquisition using 31 August 2006 as the cut-off date as mutually agreed by the parties.

Third Amendment

The Third Amendment dated 16 October 2006 was primarily a further confirmation between the parties to proceed with the Acquisition. On 22 September 2006, the Alexandra Shareholders had delivered to the Purchaser the preliminary Completion Accounts of the Peruvian Companies using 31 August 2006 as the cut-off date, and the parties agreed that (1) the statement of working capital and (2) the statement of financial liabilities set out in the preliminary Completion Accounts were considered and accepted as the Completion Accounts. The parties further agreed that:

(A) an upward working capital adjustment of approximately US$9.97 million (approximately HK$77.77 million) and a downward financial liability adjustment of approximately US$6.39 million (approximately HK$49.84 million) to the Consideration of US$100 million (approximately HK$780 million) would be made;

(B) the parties agreed that the Balance Payment Date should occur on or before 2 November 2006 or, unless otherwise agreed by the parties and subject to the provisions of the Third Amendment, the Balance Payment Date may be extended to no later than 6 November 2006;

(C) the Purchaser and the Alexandra Shareholders entered into a letter of instructions (the "Letter of Instructions") on 16 October 2006, pursuant to which the Purchaser and Alexandra Shareholders should deliver to the agent jointly instructed by the two parties (the "Agent") all documents contained in the Letter of Instructions no later than 25 October 2006, 9:00 a.m. (Peruvian Time) and the Agent's role was purely administrative and he was required to act in accordance with the terms contained in the Letter of Instructions in order to enhance the completion procedures for the Acquisition;

(D) the Alexandra Shareholders agreed to deliver the preliminary final accounts of the Peruvian Companies in which 30 September 2006 was used as the cut-off date within 18 Business Days following the Balance Payment Date, and upon receipt of the preliminary final accounts, the Purchaser should within 14 Business Days notify the Alexandra Shareholders its agreement or disagreement with the preliminary final accounts which would be used by the parties in determining the final adjustments to the Consideration and subsequently, the additional consideration payment, if any, required to be paid by any party to the other. If the Purchaser agreed to it, the preliminary final accounts would be accepted by the Parties as the Definitive Final Accounts;

(E) if the Purchaser disagreed with the preliminary final accounts, such differences were to be resolved by a mutually appointed independent auditor; and

(F) the Parties agreed to set aside US$2 million (approximately HK$15,600,000) in an escrow account with a Peruvian bank for the parties pending the final adjustments to the Consideration based on the Definitive Final Accounts (the "Adjustments Escrow"), and the Purchaser had, before the Balance Payment Date, set aside US$2 million (approximately HK$15,600,000) in the Adjustments Escrow.

Fourth Amendment

The Fourth Amendment dated 24 October 2006 was primarily a mutual confirmation between the parties in relation to the replacement or release of various personal guarantees provided by the Alexandra Shareholders for the benefit of the Peruvian Companies (the "Personal Guarantees") on the Balance Payment Date, in that:

(A) the Purchaser has agreed to deliver to an escrow agent (the "PG Escrow Agent") the amount corresponding to the respective Personal Guarantees in the event that such guarantees were not released upon the Balance Payment Date;

(B) the PG Escrow Agent was to hold the funds in the escrow account until the Personal Guarantees not replaced or released as of the Balance Payment Date, had been effectively replaced or released, or the obligations corresponding to such Personal Guarantees had been completely cancelled; and

(C) the Purchaser agreed to deliver to the Alexandra Shareholders, within thirty days following the date on which the respective creditors were notified by the Agent with the letters informing such creditors of the transfer of Sale Shares to the Purchaser, or the date on which the Alexandra Shareholders notified in writing the existence of any other personal guarantees granted or assumed by the Alexandra Shareholders related to the financial liabilities of any of the Peruvian Companies as of the Balance Payment Date, the following documents:

(i) the original document bearing the signatures of the relevant personal guarantors corresponding to the Personal Guarantees not replaced or released on the Balance Payment Date; and/or

(ii) public deeds executed by each respective creditor (or any successor or assignee of such creditor, if any) releasing the obligations of the relevant personal guarantors and any other obligations arising from or corresponding to the Personal Guarantees not replaced or released as of the Balance Payment Date.

The sum of US$6.3 million (approximately HK$49.1 million) delivered to PG Escrow Agent was returned to the Purchaser upon replacement or release of the Personal Guarantees.

Fifth Amendment

The Fifth Amendment dated 1 December 2006 was primarily to extend the period for the Purchaser to notify the Alexandra Shareholders its agreement or disagreement with the preliminary final accounts.

Consideration

The aggregate Consideration for the Sale Shares was US$100,000,000 (approximately HK$780,000,000 subject to the adjustments referred to below), which was arrived at pursuant to the negotiations between the parties to the Share Purchase Agreement on a willing buyer and willing seller basis, taking into consideration, *inter alia*, the following factors:

(i) the direct controlling interests of Alexandra in Pesquera Victor and Pesquera Flor;

(ii) ownership of the Main Assets by the Peruvian Companies and the prevailing market prices of such assets;

(iii) market value of the Sale Shares;

(iv) the Republic of Peru being one of the major fishmeal exporting countries in the world and the increase in demand for fishmeal for agriculture, poultry and pig farming in the PRC; and

(v) the prospects of the Peruvian Companies and its potential synergy effects on the Group's business.

Main Assets

The main assets owned by the Peruvian Companies which were acquired by the Purchaser through the Acquisition include 13 fishing vessels with a total storage capacity of approximately 3,839 m^3 and the respective fishing licenses, 4 fishmeal and fish oil processing plants with the processing capacity of approximately 381 metric tons of fish per hour and the respective licenses and the trademark "Alexandra" registered with the Peruvian trademark registry excluding certain assets such as any vessels or shares that were acquired by the Peruvian Companies after the date of the Share Purchase Agreement. The excluded assets are mainly assets not reflected in the accounts of the Peruvian Companies, including office equipment and spare parts inventories which are not located in the fishmeal processing plants, account receivables of the Peruvian Companies related to transactions between the Peruvian Companies and the Alexandra Shareholders, or receivables of doubtful recovery which had been fully provided for in the Peruvian Companies accounts. Pursuant to the Share Purchase Agreement, the Alexandra Shareholders have warranted that the assets excluded from the Acquisition would not affect the normal operation of the Main Assets.

In addition to the Main Assets, one fishmeal processing plant in Chimbote which was then leased by the Peruvian Companies was under an operating lease. Such lease expired in December 2006 and the Company has not renewed the lease since then.

Payment of Consideration

The Purchaser has paid to the Alexandra Shareholders a total of US$99.8 million (approximately HK$778.4 million), consisting of the first non-refundable installment of US$1 million (approximately HK$7.8 million) paid on 19 April 2006 after the signing of the Term Sheet and a further installment of US$12 million (approximately HK$93.6 million) paid on 12 September 2006, which was made within six Business Days after the signing of the Second Amendment.

Based on the Third Amendment and after the final adjustments made to the Consideration based on the Definitive Final Accounts, the Purchaser has further paid a sum of US$86,798,247.21 (approximately HK$677,026,328) for the Acquisition, consisting of:

Balance Consideration	US$87,000,000.00
Add: Working Capital Adjustment	US$5,632,339.00
	US$92,632,339.00
Less: Financial Liability Adjustment	(US$5,884,091.79)
	US$86,748,247.21
Add: US$50,000 per day being the agreed sum for the time difference between delivery of transfer documents for the Sale Shares and the Balance Consideration arriving the Alexandra Shareholders' bank account	US$50,000.00
Total Amount	US$86,798,247.21

Adjustments to Consideration

The Consideration was adjusted in accordance with the following mechanisms:

(i) Working Capital Adjustment and Financial Liability Adjustment

In the event that the amount of the aggregate of working capital adjustment and financial liability adjustment based on the accounts of Alexandra as of 30 September 2006 is greater than the aggregate of preliminary working capital adjustment and preliminary financial liability adjustment based on the accounts of Alexandra as of 31 August 2006, (i) the escrow agent should release to the Alexandra Shareholders the US$2 million (approximately HK$15.6 million) escrow funds; and (ii) in the event that the excess amount exceeded the US$2 million (approximately HK$15.6 million) escrow funds, the Purchaser should deliver to the Alexandra Shareholders the sum equivalent to such excess.

In the event that the amount of the aggregate of working capital adjustment and financial liability adjustment based on the accounts of Alexandra as of 30 September 2006 is lower than the aggregate of preliminary working capital adjustment and preliminary financial liability adjustment based on the accounts of Alexandra as of 31 August 2006, (i) the escrow agent should release to the Purchaser an amount equivalent to such difference from the US$2 million (approximately HK$15.6 million) escrow funds; and (ii) in the event that the difference exceeded the US$2 million (approximately

HK$15.6 million) escrow funds, the Alexandra Shareholders should deliver to the Purchaser the sum corresponding to such difference.

(ii) Main Assets Adjustment

If the Main Assets had disappeared or had been totally destroyed and provided that the proceeds of indemnification had not been disbursed to the Peruvian Companies by the insurance company and the insurance policy had been duly endorsed to the Alexandra Shareholders, any reduction in the value of the Main Assets was to be deducted from the Balance Consideration on a dollar for dollar basis subject to the restriction that the maximum deduction should not exceed US$7.5 million (approximately HK$58.5 million) .

(iii) Adjustment for Losses

If there was any actual loss or damage borne by the Peruvian Companies arising directly: (i) from any breach of warranties provided by the Alexandra Shareholders under the Share Purchase Agreement; or (ii) from any breach of certain terms or covenants of the Share Purchase Agreement by the Alexandra Shareholders, the Alexandra Shareholders were to, subject to various limitations as provided for in the Share Purchase Agreement, compensate the Purchaser for such actual loss or damages.

The Share Purchase Agreement has provided a mechanism for the deduction from the Balance Consideration of certain losses or damages established on or before the Balance Payment Date and the setting aside of a portion of the Balance Consideration in an escrow account as a form of security. Pursuant to the Second Amendment, the parties agreed that such form of security had been replaced by way of a personal guarantee.

Based on the Definitive Final Accounts, there was an upward working capital adjustment of approximately US$5.63 million (approximately HK$43.91 million), and a downward financial liability adjustment of approximately US$5.88 million (approximately HK$45.86 million) made to the Consideration. The US$2 million (approximately HK$15.6 million) escrow fund was returned back to the Purchaser upon the preparation of Definitive Final Accounts.

Source of Funds

The Consideration was initially funded by the Purchaser by a combination of internal resources and external debt financing. The Purchaser subsequently refinanced the Consideration with part of the proceeds of the Senior Notes issued on 20 December 2006.

Completion

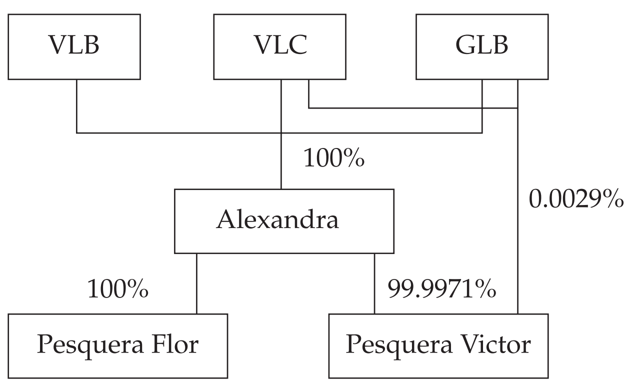
Completion took place on 26 October 2006 during which the Alexandra Shareholders transferred the Sale Shares to the Purchaser. The Main Assets were also delivered to the Purchaser on the same day.

As shown from the corporate structure of the Peruvian Companies immediately before Completion below, Alexandra together with GLB and VLC were holding the entire issued share capital of each of Pesquera Victor and Pesquera Flor. As shown from the corporate structure of the Peruvian Companies immediately after Completion below, the Peruvian Companies became wholly-owned subsidiaries of the Purchaser and indirect non-wholly-owned subsidiaries of the Company after the Completion.

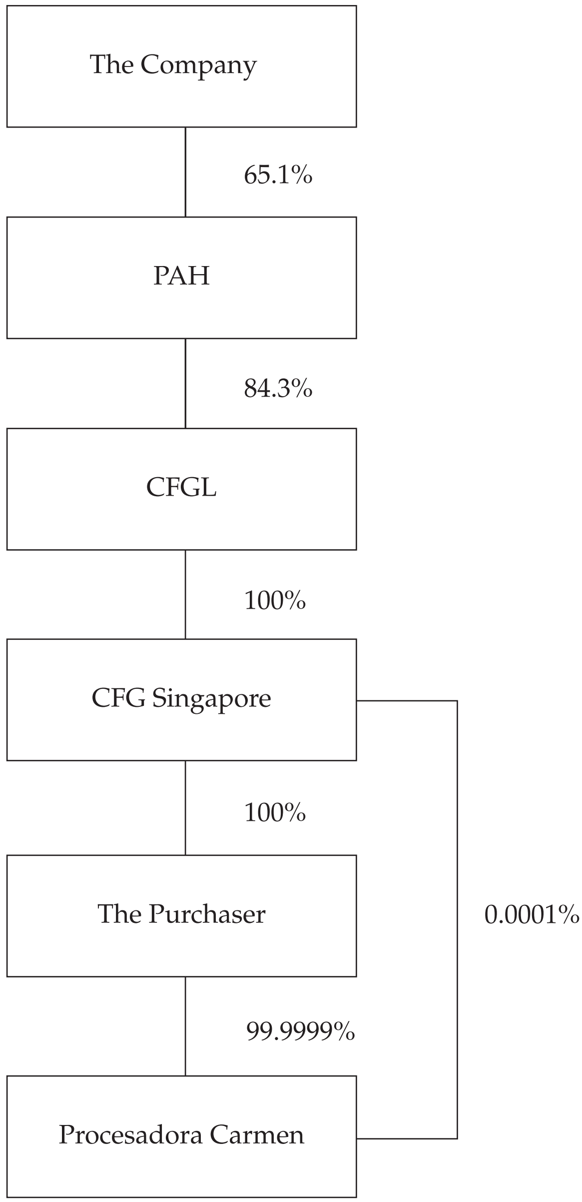
Guarantee

CFGL has guaranteed to the Alexandra Shareholders all of the contractual obligations of the Purchaser under the Share Purchase Agreement, including but not limited to, the payment of the Consideration.

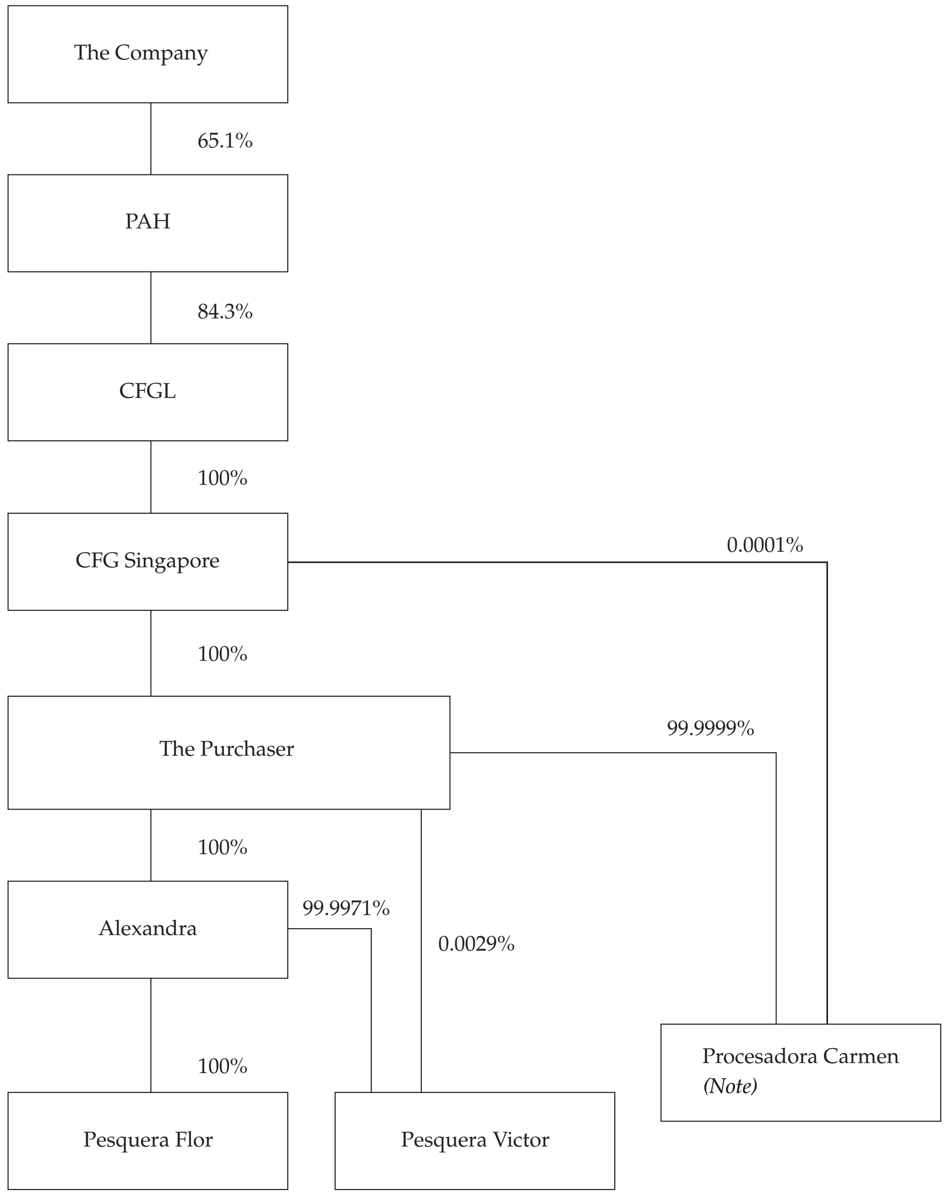
Corporate structure of the Peruvian Companies immediately before Completion



Corporate structure of the Company immediately before Completion



Corporate structure of the Company and the Peruvian Companies immediately after Completion



Note:

Effective 1 November 2006, the Peruvian Companies and Procesadora Carmen were merged into the Purchaser.

3. THE ACQUISITION

Overview

On 26 October 2006, the Purchaser acquired the Peruvian Companies for a total adjusted purchase price of US$99.8 million (approximately HK$778.4 million), including a sum of US$13.0 million (approximately HK$101.4 million) installment payments made previously. The Acquisition was effected through the Purchaser's acquisition of the entire issued share capital of the Peruvian Companies from the Alexandra Shareholders, who were Independent Third Parties.

In the Acquisition, the Purchaser has acquired 13 fishing vessels and four fishmeal processing facilities in Peru. The fishing operations provide anchovy as the feedstock for the fishmeal processing operations.

In anticipation of the Acquisition and to provide additional anchovy feedstock in order to increase the utilization rate of the Peruvian Companies' fishmeal processing plants, in May 2006, the Purchaser acquired Procesadora Carmen which owns and operates two fishing vessels in Peruvian waters at a total consideration of US$4.6 million (approximately HK$35.9 million) from an Independent Third Party. In June 2006, the Purchaser acquired a third fishing vessel in Peru at a consideration of US$4.7 million (approximately HK$36.7 million) from an Independent Third Party. In December 2006, the Purchaser acquired Pesquera Isla which owned and operated two fishing vessels in Peruvian waters at a total consideration of US$4.4 million (approximately HK$34.3 million) from an Independent Third Party. In February 2007, the Purchaser acquired the sixth fishing vessel in Peru at a consideration of US$2.4 million (approximately HK$18.7 million) from an Independent Third Party. In March 2007, CFG Singapore further acquired Grenadine which owns and operates 4 fishing vessels in Peruvian waters at a total consideration of US$14.0 million (approximately HK$109.2 million) from an Independent Third Party. The ten additional fishing vessels have an aggregate storage capacity of approximately 2,843 cubic meters.

Peru Fishmeal Industry

Overview

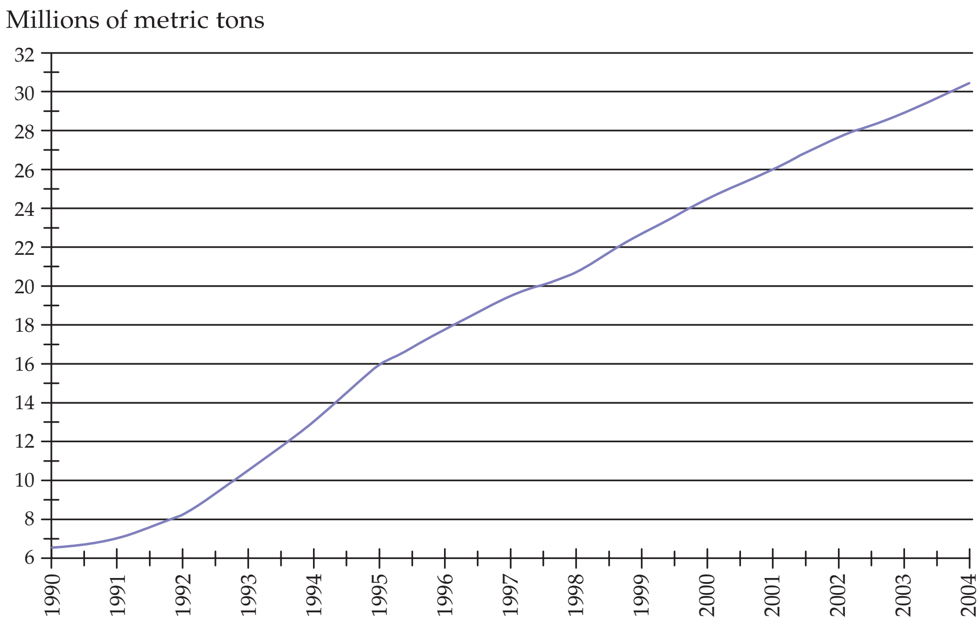
Peru is located in western South America bordering Bolivia, Brazil, Chile, Colombia and Ecuador. Its coastline is 3,080 kilometers long bordering the South Pacific Ocean. As of 31 December 2006, Peru had a population of approximately 27 million people.

Peruvian GDP increased 7.7% in 2006. According to the IFFO, total fishmeal exports represented approximately 6.5% of total Peruvian exports in value terms in 2005. In comparison, the fishing industry as a whole represented 7.5% of total Peruvian exports in value terms in 2005, according to the Central Bank of Peru. Peru is the largest fishmeal and fish oil producer in the world. According to the IFFO, Peruvian production of fishmeal represents approximately 30% of the total world production volumes of fishmeal.

Owing to low aquaculture production in Peru, most fishmeal produced in Peru is exported. In 2005, 99% of fishmeal production was exported. According to the IFFO, Peru accounts for approximately 45% of world fishmeal exports. China is the largest export market for fishmeal produced in Peru, accounting for approximately one million metric tons, or 52% of Peru's total fishmeal exports in 2005. According to the IFFO, due to growth in aquaculture, particularly in China, the largest producer of aquaculture fish and shrimp, world demand for fishmeal and fish oil is expected to continue to increase.

According to the FAO, from 1990 to 2004, the most recent year for which information is available, the amount of fish and shellfish produced in aquaculture worldwide grew at a compound annual growth rate of approximately 8.7%, from approximately 13.1 million metric tons to approximately 45.5 million metric tons. The largest aquaculture producer is China, with approximately 67.3% of total world aquaculture production in 2004, according to the FAO.

The following chart sets forth the increase in aquaculture production in China for the periods indicated.



Source: FAO

The growth in aquaculture has created an increase in demand, particularly in the primary aquaculture markets in Asia, for fishmeal, which is used as one of the sources of protein in feed for aquaculture fish and shrimp. According to the IFFO, fishmeal imports in China rose from 763,000 metric tons per year from 1994 to 1996 to 1.3 million metric tons per year in 2004 and 2005.

Processing Plants

Historically, more than 80% of the total anchovy catch has been concentrated between the central and north coast of Peru. Accordingly, most of the processing plants are also concentrated in this area. Approximately 70% of the processing plants are located in the regions with the greatest fishing resources, constituting Ancash, Lima and Ica.

Fishmeal and Fish Oil Production, Exports and Prices

Peru is the largest producer of fishmeal and fish oil in the world. In 2005, Peru produced approximately two million metric tons of fishmeal and 300,000 metric tons of fish oil. However, because of restrictions in the catch of anchovy in Peru imposed by the Peruvian government, Peruvian fishmeal production was not expected to exceed 1.3 million metric tons in 2006. According to the IFFO, worldwide fishmeal production was also expected to be lower in 2006 than in 2005.

In 2005, Peru had 104 active fishmeal processing plants, with a total processing capacity of approximately 8,900 metric tons of feedstock per hour. Besides Peru, the major exporters of fishmeal are Chile, the Scandinavian countries of Denmark, Iceland and Norway, and the Asian countries of China and Thailand.

The following table sets forth the fishmeal production in five major fishmeal exporting countries for the periods indicated:

Country	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
				(in thousands of metric tons)			
Peru	1,940	2,308	1,844	1,930	1,289	1,983	2,021
Chile	977	780	699	835	667	933	795
Iceland	222	272	284	300	271	204	179
Denmark	311	318	299	308	246	260	214
Norway	242	264	216	227	131	215	154

Source: IFFO

Besides Peru, the major producers of fish oil are Chile, Denmark, Iceland and Norway. The following table sets forth fish oil production in five major fish oil exporting countries for the periods indicated:

Country	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
			(in thousands of metric tons)				
Peru	603	593	304	193	208	352	290
Chile	160	171	143	146	130	142	122
Denmark	95	137	146	105	109	67	72
Iceland	100	95	108	80	92	49	55
Norway	90	83	66	62	51	37	31

Source: IFFO

In 2005, the Peruvian Companies exported approximately 112,000 metric tons of fishmeal, which made it the 5th largest exporter in Peru.

According to the FAO, China is the largest export market for fishmeal produced in Peru. In 2005, China imported approximately one million metric tons of fishmeal from Peru, which represented 52% of Peru's total fishmeal exports. The next largest export market is Germany with approximately 12% of exports, followed by Japan with approximately 9% of exports and Taiwan with 4% of exports. Germany is a major transshipment platform for re-export to other countries in Europe.

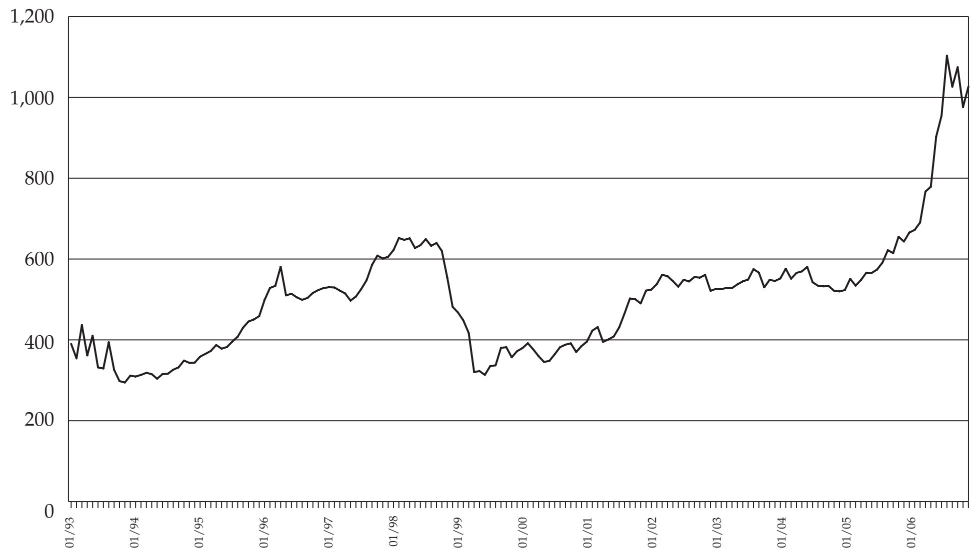
The following table sets forth the four largest export markets, and total fishmeal exports, for fishmeal produced in Peru for the periods indicated:

Country	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
			(in thousands of metric tons)				
China	337.7	913.2	578.3	590.0	521.0	813.0	1,049.4
Germany	168.2	176.7	140.8	99.4	188.7	153.1	235.9
Japan	100.4	125.3	259.6	196.0	164.6	197.0	170.2
Taiwan	141.0	159.2	126.1	79.2	68.3	83.0	84.0
Others	738.7	977.9	833.8	553.6	429.4	508.9	461.9
Total	1,486.0	2,352.3	1,938.6	1,518.2	1,372.0	1,755.0	2,001.4

Source: GLOBEFISH Commodity Update, March 2006

Fishmeal and fish oil prices are influenced primarily by expected production in fishmeal producing countries of anchovy and other fish catch used as feedstock, and changes in the demand of fishmeal and fish oil in aquaculture and agriculture. Due in part to reduced production of fishmeal and rising demand in China, Japan and Taiwan, world fishmeal prices have risen in 2006 to historically high levels. As of 30 September 2006, the price of standard fishmeal FOB Peru was US$1,000 (approximately HK$7,800) per metric ton and up to US$1,150 (approximately HK$8,970) per metric ton for steam-dried super prime fishmeal.

The following chart shows the prices of fishmeal FOB Peru in U.S. dollars per metric ton for the periods indicated.



Source: Bloomberg/Central Bank of Peru

Fishmeal and other grain-based materials such as soybean meal, ground nut meal or corn gluten are used as protein sources in animal and shrimp and fish aquaculture feeds. However, although soybean meal, ground nut meal, corn gluten and other grains are cheaper than fishmeal, they do not have as high a protein content as fishmeal and therefore do not promote growth in aquaculture fish, shrimp and agricultural animals, including chickens and pigs, to the extent that fishmeal does.

Fish Capture

The Peruvian anchovy has historically been the most harvested ocean catch fish in the world. According to the FAO, the two primary global fisheries of the Peruvian anchovy are found off the coasts of Peru and Chile. The Peruvian anchovy is found in large schools, generally within 80 to 160 kilometers of the coast. In Peru, the Peruvian anchovy breeds throughout the year, with spawning occurring from July to September and from February to March. The Peruvian anchovy matures quickly, generally when one year of age, and its life span is approximately three years. Once mature, it is a slender fish ranging from 10 to 20 centimeters in length.

The Peruvian anchovy feed on the rich plankton which are abundant due to the nutrients brought to the surface by the Peruvian current in the Southeast Pacific Ocean. This current represents a coastal upwelling ecosystem that is formed by a combination of the prevailing winds of the Southeast Pacific Ocean and the rotation of the earth. It extends from the middle of the South Pacific Ocean to the Peruvian and north Chilean coastlines. Where the current collides with the steep continental shelf of South America, the cool waters of the Peruvian current are pushed to the surface.

Harvesting of the Peruvian anchovy in the northern and central regions of Peru is heavily regulated by the Peruvian government. The Peruvian government has taken measures to ensure that anchovy in the northern and central regions of Peru is harvested at sustainable levels. The Peruvian government permits fishing in the northern and central regions of Peru only during limited periods, generally from March/April to June/July and October/November to December. The Peruvian government also conducts anchovy stock assessments and establishes the total allowable catch of anchovy in the northern and central regions of Peru each year based on its assessment of sustainable levels. However, harvesting of anchovy in the southern region of Peru is not subject to limitations on the total allowable catch.

The following table sets forth the Peruvian anchovy total allowable catch applicable in the northern and central regions of Peru, and the total anchovy catch in all of Peru during the periods indicated.

Anchovy Total Allowable Catch in Northern and Central Regions and National Total Catch

	2003	2004	2005
	(in millions of metric tons)		
Total allowable catch	6.5	7.5	7.0
Total catch[(1)]	5.3	8.6	8.7

Source: The source of Peruvian anchovy total allowable catch information is the Instituto del Mar del Peru. The source of Peruvian anchovy total catch information for 2003 and 2004 is the FAO. The source of Peruvian anchovy total catch information for 2005 is the Fishmeal Information Network as FAO information is not available for 2005.

(1) Total catch exceeds total allowable catch because total catch includes catch in Southern Peru where fishing is not subject to limitation on the total allowable catch. Total allowable catch limitations are only applicable in northern and central Peru.

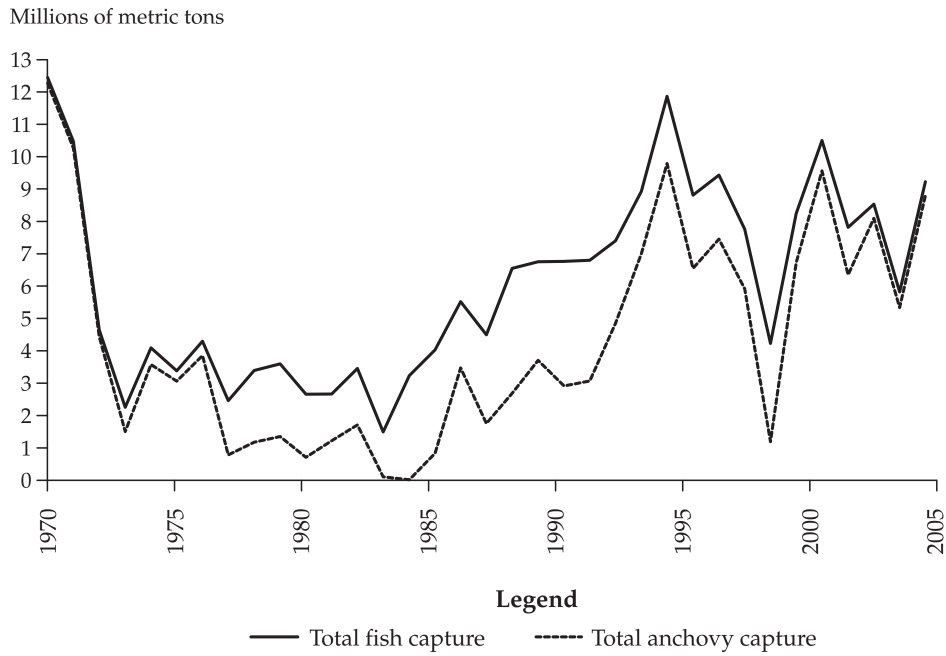
The Peruvian government set the total allowable catch of anchovy in the northern and central regions of Peru in the first fishing season ended 19 June 2006 at three million metric tons and set the aggregate total allowable catch in the second fishing season, which was divided into two sub-seasons, November and December 2006, at two million metric tons.

Because Peru accounts for such a large percentage of fishmeal and fish oil worldwide, the occurrence of weather conditions off the coast of Peru affects not only Peru but also the world at large. Two different natural phenomena regularly impact the harvesting of anchovy off the coast of Peru.

According to the U.S. National Oceanic and Atmospheric Administration, the El Ninõ phenomenon is an unusual warming of the tropical Pacific Ocean that occurs irregularly at approximately three to six year intervals in response to a large scale weakening of the trade winds that normally blow westward from South America toward Asia. Normally, the trade winds produce cool surface water in the Eastern Pacific Ocean, through evaporation and the upwelling of colder water from below the surface. Simultaneously, they also contain warm surface waters over in the far Western Pacific Ocean. As the trade winds weaken, so does the containment of the warm water in the Western Pacific Ocean and the maintenance of cooler water in the Eastern Pacific Ocean. As a result, during an El Ninõ phenomenon, relatively warm water spreads all across the Pacific Ocean, including to South America. The two principal factors affecting anchovy and other marine life during an El Ninõ phenomenon are warmer water temperatures and reduced supply of high, subsurface nutrients that normally upwell to shallow depths. Adding to these factors, El Ninõ causes significant rainfall in the Andean mountains, introducing large amounts of fresh water into the sea. In an El Ninõ environment, anchovy migrate to deeper water and further south where the water temperature is cooler, water salinity is higher and there are more nutrients. The total fish catch in an El Ninõ environment is therefore significantly lower.

La Niná is known as the cold phenomenon and occurs when strong winds blow from the South, introducing lower sea temperatures. A mild La Niná can have a very positive impact on anchovy fishing because there will be less rain in the Andean mountains and therefore there is less fresh water flowing into the sea, which results in more appropriate salinity levels. However, when the La Niná effect is strong fish tend to spread out searching for warmer waters at different depths, which results in greater difficulty in capturing large amounts of fish. As a result, La Niná may also create a negative fishing environment due to the increased cost of capturing fish.

The El Ninõ effect can dramatically affect anchovy and other fish populations. The last occurrence of the El Ninõ effect in Peru occurred in 1997 and 1998, when catches of anchovy dropped severely, before recovering from 1999 to 2000. Scientists at the Climate Prediction Center of the U.S. National Oceanic and Atmospheric Administration have stated recently that El Ninõ conditions have developed in the Pacific Ocean in the fall of 2006 and are likely to continue in early 2007, indicating that an El Ninõ phenomenon may occur in Peru in the near future. These El Ninõ conditions are expected to reduce the catch of anchovy in Peru. The following chart shows the effect of the El Ninõ phenomenon on catches of anchovy and other fish species since 1970.



Source: FAO

Peruvian Fishing Fleet

The current Peruvian law prohibits expansion of the industrial fishing fleets beyond their current levels. New fishing vessels may only be acquired as replacements for existing vessels. The Peruvian government introduced controls in 1998 with respect to wooden fishing vessels. As a result, all fishing vessels in Peru must now be licensed by the Vice Ministry of Fishing. All steel and wooden fishing vessels engaged in industrial fishing activities must contain satellite-based vessel tracking systems.

Business of Peruvian Companies

Overview

The Purchaser has acquired the Peruvian Companies with 13 fishing vessels and four fishmeal and fish oil processing facilities with a total processing capacity of approximately 381 metric tons of Anchovy feedstock per hour which operate in Peru. In 2006, the Peruvian Companies produced approximately 75,365 metric tons of fishmeal and 13,445 metric tons of fish oil. In 2006, of the total amount of raw fish material used in its fishmeal processing plants, 37% was caught by the Peruvian Companies's own vessels and 3% was caught by the Purchaser's own vessels, while the remaining 60% was purchased from local fishing companies.

Twelve of the 13 fishing vessels of the Peruvian Companies are steel vessels and the remaining one is a wooden vessel. The vessels have storage capacities ranging in size from 103 cubic meters to 372 cubic meters. The vessels have a total storage capacity of approximately 3,839 cubic meters. These vessels typically conduct fishing operations within a radius of up to 250 miles from their respective bases and remain at sea for a duration of one to two days at any one time. The vessels utilize satellite-based vessel tracking and fish finding systems for their fishing operations. The vessels use the purse seine fishing technique.

In 2006, the Peruvian Companies exported over 95% of its fishmeal and fish oil products primarily through trading companies in Peru which re-sold these products principally to customers in China, Germany, Taiwan and Japan. The revenues were principally in U.S. dollars.

The Purchaser has been operating the fishing vessels and processing plants acquired in the Acquisition since 1 November 2006. From 1 November 2006 to 31 December 2006, the 18 vessels in Peru caught approximately 50,847 metric tons of anchovy and the 4 fishmeal processing plants produced approximately 16,891 metric tons of fishmeal and approximately 2,891 metric tons of fish oil.

Set out below is a map of Peru indicating the relative locations of the Purchaser's coastal operations in Peru.

Legend

- National Capital
- Departmental Capital
- Town
- Chicama fishmeal processing plant
- Huarmey fishmeal processing plant
- Chancay fishmeal processing plant
- Planchada fishmeal processing plant

Processing Plants

The Purchaser has acquired the Peruvian Companies with four fishmeal processing plants strategically located along the Peruvian coastline. These plants are all located at secondary shipping ports along the coast to aid the delivery of fish from fishing vessels as well as export shipping of the processed fishmeal and fish oil to customers. Three of the processing plants are located along the northern and central coastline of Peru, where currently fishing is subject to the total allowable catch established by the Peruvian Government in the year, and one processing plant is located along the southern coastline of Peru, where currently fishing is not subject to limitation on the total allowable catch. Prior to the Acquisition, the Peruvian Companies operated a fifth fishmeal processing plant, the Chimbote plant, under an operating lease which was expired in December 2006. The Purchaser did not acquire the Chimbote plant in the Acquisition as the processing plants in Huarmey and Chicama have surplus processing capacities. Below is the operational information for the Chimbote plant included in the Peruvian Companies' results of operations for the historical periods presented in this circular.

The Huarmey plant and the Planchada plant are subject to security arrangements in favor of banks as security for loans incurred from the banks in the financing of the acquisition of the plants. The Huarmey plant is held in trust in favor of Scotia Bank (formerly Banco Wiese Sudameris S.A.A) in order to secure the payment in the amount of US$4.1 million (approximately HK$32.0 million). As of 31 December 2006, approximately US$1.77 million (approximately HK$13.81 million) was outstanding under the loan from Scotia Bank. The Planchada plant is subject to a mortgage in favor of Banco Internacional del Peru – Interbank. As of 31 December 2006, approximately US$0.44 million (approximately HK$3.43 million) was outstanding under this mortgage.

The following table sets forth the location, processing capacity size and whether the plants are owned or leased as of 31 December 2006.

Plant	**Location**	**Production capacity**	**Process Type**	**Age**	**Owned or Leased**
Planchada plant	Planchada Port (760 km south of Lima)	145	Flame Dried	45	Owned
Chancay plant	Chancay Port (80 km north of Lima)	80	Steam Dried	30	Owned
Huarmey plant	Huarmey Port (300 km north of Lima)	76	Flame Dried	25	Owned
Chicama plant	Malabrigo Port (610 km north of Lima)	80	Steam Dried	7	Leased[1]

(1) The Chicama plant is leased under a finance lease from its owners, Scotia Bank (formerly Banco Sudamericano), Banco Interamericano de Finanzas and Scotia Bank. The lease has a term of 84 months, commenced on 26 May 2000 and expiring on 26 May 2007. At the end of the lease period, the Purchaser has an option to purchase the Chicama plant by paying 1% of the purchase price paid by the banks, or US$101,526 (approximately HK$791,903) . As of 31 December 2006, the outstanding finance lease obligation was about US$1 million (approximately HK$7.8 million) .

Fishmeal Processing

Fishmeal is the primary fish product produced at the processing plants. In 2006, the Peruvian Companies produced approximately 75,365 metric tons of fishmeal. The following table sets forth the production quantity of each of the five processing plants for the periods indicated.

	Year Ended 31 December		
	2004	**2005**	**2006**
	(in metric tons)		
Planchada Plant[(1)]	5,097	41,413	32,477
Chancay plant	26,196	27,982	15,960
Huarmey plant[(2)]	17,725	17,241	11,043
Chicama plant[(3)]	36,246	11,172	12,431
Chimbote plant[(4)]	12,057	7,867	3,454
Total	97,321	105,675	75,365

(1) Pesquera Victor acquired the Planchada plant in July 2004. In 2006, Pesquera Victor increased the processing capacity of the plant from 100 metric tons of feedstock per hour to 145 metric tons per hour.

(2) Alexandra acquired the Huarmey plant in July 2002 pursuant to a public bidding process and commenced operations in December 2002. In October 2005, Alexandra increased the processing capacity of the plant from 57 metric tons of feedstock per hour to 76 metric tons per hour.

(3) The Chicama plant commenced operations in December 1999.

(4) Alexandra entered into an operating lease to operate the Chimbote plant in April 2003. The lease expires in December 2006. The Purchaser did not acquire the Chimbote plant as the processing plants in Huarmey and Chicama have surplus processing capacities.

Two of the processing plants (the Chicama plant and the Chancay plant) use steam dryers and two of the plants (the Huarmey plant and the Planchada plant) use flame dryers. With respect to steam-dried fishmeal, the plants produce a range of different grades, including Super Prime, Prime, Taiwan Grade, Thailand Grade and Standard. With respect to flame-dried fishmeal, the plants produce three different grades, consisting of FAQ Prime, Extra Standard and FAQ Standard.

The fishmeal produced by the plants use anchovy as feedstock. These feedstock are delivered by the fishing vessel using a fish pump installed in a barge and sent through a submarine pipe to the processing plant. The raw materials are then weighed and sampled, transported to pits and then heated, strained, pressed, undergoing a decanting and centrifuge process, evaporated, dried, cooled, ground and packaged. These steps are discussed in further detail below.

The purpose of the heating, or "cooking," stage is to prepare the fish in order to liberate the water and oil content of the fish, so as to condition the material for the subsequent treatment in the other processing units.

In this stage, the raw material is fed along a conveyer from the pits to the cooker. Cooking kills micro-organisms and ensures proper pressing of the fish mass, leading to proper removal of press liquor and efficient recovery of fish oil, giving a meal with a low fat content which is an indication of quality.

The straining process facilitates the functioning of the press. In this process, the liquid liberated from the cooker is drained from the coagulated fish pulp in a strainer. The purpose of the press is to squeeze out as much liquid as possible from the solid phase. This is important not only to improve the oil yield and the quality of the meal, but also to reduce the moisture content of the press cake as far as possible, thereby reducing the fuel consumption of the dryers and increasing their capacity.

In conjunction with the pressing process, the processing plants also use decanters and centrifuges to separate the solids and liquids in the cooked fish material. The mixture, referred to as “press liquor” coming from the press consists of water and varying amounts of oil and dry matter, which is both dissolved and suspended in the mixture. The processing plants use the decanter and centrifuge to separate the solids, oil and water in the mixture.

When decanters and centrifuges have removed the major part of oil and suspended solids from the press liquid, the remaining mixture, referred to as “stickwater” because it is viscous and sticky, contains dissolved proteins, suspended proteins, residual oil, minerals, vitamins and ammonia. Evaporating and drying is performed in order to recover the remaining solids from the stickwater mixture. In the evaporation process, stickwater is steadily evaporated until a desired concentration level is reached. At this stage, the concentrate and the presscake from the pressing process are conveyed to the dryers. The purpose of the drying process is to convert the mixture of presscake, decanter sludge and concentrate from the evaporation process into a dry and stable fish meal. Drying is performed by feeding the mixture of presscake and concentrate into the dryer and heating the material to a temperature where the rate of evaporation of the water is considered satisfactory. There are two types of drying process, namely steam-drying and fire-drying. The steam-dried process uses steam to dry the fishmeal. This process takes longer, but the protein content of the fishmeal is better maintained. On the other hand, the flame-dried process entails exposure to direct flame, which allows for a shorter processing time but the protein content of the fishmeal is usually lower. Generally, the material is dried to a moisture content below 12%. Each of the processing plants use a two-stage drying system to achieve a low moisture content.

After drying, the mixture is fed into a grinding machine in order to produce small particles and a homogenous blend. After this process, an antioxidant is added to the fishmeal in order to stabilize the material and prevent reaction with the air. The final fishmeal is then packaged. Approximately 22% to 25% by weight of the feedstock is recovered in producing fishmeal. The finished product has a high protein content, which makes it ideal for feed products. Fishmeal typically is composed of approximately 60% to 72% protein, 10% to 12% fat, 10% to 12% moisture, 5% to 7% salt and sand and 10% to 20% ash.

Fish Oil Processing

Crude fish oil is produced as a byproduct from the production of fishmeal. Fish oil is primarily used as feed in aquaculture but is also used as the raw material in making capsules containing omega-3 fatty acids as a human health supplement. Approximately 1% to 6% by weight of the fish is recovered in producing fish oil, depending upon the maturity of the fish and the date in the fishing season when the fish is harvested.

In 2006, the Peruvian Companies produced approximately 13,445 metric tons of fish oil. The following table sets forth the production quantity of fish oil of each of the five processing plants for the periods indicated.

	Year Ended 31 December		
	2004	**2005**	**2006**
	(in metric tons)		
Planchada plant[(1)]	443	5,239	4,123
Chancay plant	5,214	4,536	3,558
Huarmey plant[(2)]	3,495	2,093	2,137
Chicama plant[(3)]	6,886	1,435	2,869
Chimbote plant[(4)]	2,267	1,002	758
Total	18,305	14,305	13,445

(1) Pesquera Victor acquired the Planchada plant in July 2004. In 2006, Pesquera Victor increased the processing capacity of the plant from 100 metric tons of feedstock per hour to 145 metric tons per hour.

(2) Alexandra acquired the Huarmey plant in July 2002 pursuant to a public bidding process and commenced operations in December 2002. In October 2005, Alexandra increased the processing capacity of the plant from 57 metric tons of feedstock per hour to 76 metric tons per hour.

(3) The Chicama plant commenced operations in December 1999.

(4) Alexandra entered into an operating lease to operate the Chimbote plant in April 2003. The lease expires in December 2006. The Purchaser did not acquire the Chimbote plant as the processing plants in Huarmey and Chicama have surplus processing capacities.

Quality Control

Quality control inspections and laboratory analysis are performed at every stage of the fishmeal and fish oil production process, from raw materials to finished products. In this regard, internationally recognized quality standards have been implemented at the processing plants. The Purchaser has a chief of quality control and five quality control technicians, including chemists, at each of the processing plants. The Purchaser also performs laboratory analysis of the finished fishmeal and fish oil for protein, fat, moisture, and salt and sand content. The Purchaser also performs a total basic volatile nitrogen, free fatty acids, histamine, digestibility and antioxidant analysis and a physical examination of the fishmeal and fish oil for smell, texture and color. A quality control certificate, which certifies as to the results of the laboratory analysis, is generally required to be delivered to customers, and is extended by an independent surveyor such as Societe Generale de Surveillance ("SGS"). The Peruvian Companies had not, and so far the Purchaser has not, experienced any incidences of contamination and no major returns of fishmeal or fish oil products delivered to customers.

Fishing and Purchasing

In 2006, of the total amount of raw fish material used in its fishmeal processing plants, 37% was caught by the Peruvian Companies' own vessels and 3% was caught by the Purchaser's own vessels, while the remaining 60% was purchased from local fishing companies. The following table shows the Peruvian Companies' annual supply of raw fish material from its own vessels, the Purchaser's own vessels and from third parties for the periods indicated.

	Raw Material Purchases			
Year	**Peruvian Companies' Vessels**	**Purchaser's Vessels**	**Third Parties**[(1)]	**Total**
		(in metric tons)		
2004	169,882	–	266,875	436,757
2005	211,441	–	276,786	488,230
2006	134,177	10,579	219,380	364,136

(1) Catch from third parties is purchased from local fishing companies.

Fishing Vessels

The Purchaser acquired the Peruvian Companies with 13 fishing vessels, which are used to support the fishmeal and fish oil operations. The vessels have storage capacities which range in size from 103 cubic meters to 372 cubic meters, with a total storage capacity of approximately 3,839 cubic meters. All of the fishing vessels are authorized to conduct fishery operations by the Ministry of Fisheries in Peru.

Of the 13 fishing vessels, seven of the vessels are owned and six of the vessels are leased under finance leases with banks in Peru. Under these finance leases, the Purchaser has an option to buy, at a residual price, the vessel once the term of the finance lease has expired, meaning once the last installment has been paid. The amounts outstanding under the finance leases as of 31 December 2006 were US$3.3 million (approximately HK$25.7 million). The expiration dates under the finance leases for these vessels ranged from 12 March 2007 to 25 April 2011.

These vessels typically conduct fishing operations within a radius of up to 60 to 70 nautical miles from their respective processing plant bases, which generally permits them to return to shore each day. Large-scale fishing is forbidden within five miles of shore as the area is reserved for artisanal fishing (meaning small-scale fishing in which part of the catch is consumed by the fisherman's family and the rest is sold locally). The fishing vessels fish year-round in Peru according to the fishing season. The Peruvian government permits anchovy fishing in northern and central Peru only during the designated fishing seasons, which are announced ahead of time by the Peruvian government. In addition, fishing of anchovy in northern and central Peru is limited to the total allowable catch, as determined annually by the Peruvian government. Anchovy fishing in southern Peru is not subject to limitation on the total allowable catch. The Purchaser utilizes satellite-based vessel tracking and fish finding systems (sonar and echo-sounders) for its fishing operations.

The fishing vessels are docked approximately every 18 months for routine maintenance and repairs for a period of approximately 20 to 25 days. The maintenance of the vessels is outsourced to third-parties at dry dock facilities in Chimbote and Callao. Minor repairs and maintenance are also performed on the vessels during the fishing season.

Fishing Techniques

The Purchaser's fishing vessels in Peru use the purse seine fishing technique. This method, which is used to capture large, dense schools of mobile fish such as mackerel, anchovy, sardines and herring, involves the use of a skiff boat that is kept on the stern of the deck of the fishing vessel until it arrives at the fishing area. When the vessel starts setting the net, this auxiliary vessel is lowered to the sea. The skiff boat stays stationary while the larger fishing vessel drags a large seine in a circle towards the stationary skiff boat. The ends of the seine are then brought together, thereby trapping all catch within the enclosed circle.

Sales and Marketing

Historically, a substantial majority of the Peruvian Companies' total sales is exported.

The customers of the Peruvian Companies are mostly agribusiness companies and aquaculture companies that buy either directly or through trading companies for sale to end-customers, which use fishmeal and fish oil as raw material for animal feed products.

Usually, the sales are made by the Peruvian Companies giving firm offers to buyers that are valid for 24 hours. The buyer either accepts the conditions of the offer or makes a counter-offer in which case the Peruvian Companies will either accept the counter-offer and make the sale or reject the counter-offer.

Once conditions of sale are agreed with the customer, a sale and purchase contract is signed. Payment is generally made by the customer through letters of credit confirmable at sight and in some other cases (as with Japanese customers) a bill of collection is also an acceptable form of payment.

With the exception of customers in Germany, customers in the export markets use (or resell to end-customers who use) the fishmeal and fish oil in their markets. The fishmeal that arrives in Bremen, Germany is sent onto other destinations in Europe.

The primary export markets for the fishmeal and fish oil products are the PRC, Germany, Taiwan and Japan.

Competition

The fishmeal and fish oil industry in Peru is highly competitive. Peru is the largest producer of fishmeal in the world. In 2005, the Peruvian Companies had fishmeal exports that represented approximately 5.6% of total Peruvian exports, and fishmeal production that represented 5.5% of total Peruvian fishmeal production in terms of volume. Currently, Peru has restrictions on the grant of new licenses to operate fishing vessels and fishmeal processing plants, which represents a limitation on the size of the market in Peru. However, in addition to competing with the other producers of fishmeal and fish oil in Peru, the Peruvian Companies are also competing with other worldwide fishmeal and fish oil manufacturers. Besides Peru, according to the IFFO, the major exporters of fishmeal are Chile, the Scandinavian countries of Denmark, Iceland and Norway, and Asian countries of China and Thailand. However, because a large percentage of Chile's production of fishmeal and fish oil is used in the domestic market in salmon aquaculture, the Directors believe that direct competition with Chile is limited. The Peruvian Companies also face competition from grain-based products which are substitutes for fishmeal.

Taxation

The Purchaser is subject to income tax in Peru at the rate of 30% of taxable income. The Peruvian Companies incurred income tax expenses of S/.4.1 million (approximately HK$10.0 million), S/.4.4 million (approximately HK$10.8 million) and S/.11.0 million (approximately HK$27.0 million) in 2004, 2005 and 2006, respectively. The Purchaser is also subject to value added tax and other taxes in Peru.

Insurance

The Purchaser maintains insurance policies with respect to the fishing vessels and fishmeal processing plants it has acquired in Peru. The insurance policies are provided by reputable insurance companies in Peru.

Licenses

The Fishing Law of Peru requires fishing vessels to have licenses to fish for anchovy. Each of the 13 fishing vessels acquired in the Acquisition has valid licenses to fish for anchovy in Peru. These licenses each have an indefinite duration. The other five fishing vessels the Purchaser acquired in May, June and December 2006 also have valid licenses to fish for anchovy in Peru.

Each of the Chicama Plant, Huarmey Plant, Chancay Plant and Planchada Plant holds valid permits to engage in fishmeal and fish oil production activities.

Employees

As of 1 November 2006, being the date on which the operations of the Peruvian Companies were formally taken up by the Purchaser, the Peruvian Companies had 550 employees, of which 13 were permanent employees, 243 were hired under fixed term contracts for the fishmeal processing plants, 14 were hired under fixed term contracts for other purposes and 280 were crew of the fishing vessels. The Purchaser have retained most of these employees upon the Completion.

As a result of the Acquisition, the Purchaser is now responsible for required contributions and benefits for its employees in Peru. These are discussed below.

Processing plant employees. The majority of the employees at the processing plants are hired on short-term fixed contracts, which are generally for a period of six months. Employees receive a monthly salary, as well as semi-annual bonuses. The first semi-annual bonus is payable during the first half of July and the second semi-annual bonus is payable in the first half of December, provided the employee works the entire half-year period. If the employee does not work the entire half-year period, the semi-annual bonus is paid proportionately. Employees are also entitled to a 30-day paid vacation for each complete year of service, subject to certain exceptions to reduce, accumulate or break up the vacation period with the agreement of the employer. However, in no event shall the vacation period be less than seven calendar days per year. Further, employees are entitled to receive for each half-year period a deposit of 8.33% of the employee's salary during the half-year period. The deposit is made in an account, referred to as a "CTS Account," with a bank chosen by the employee.

The Purchaser deducts approximately 13% from each employee's salary for contribution to a pension plan of the employee, which may either be a privately administered pension fund or a fund managed by the Peruvian government. The Purchaser also contributes an amount equals to 9% of each employee's salary to a government-administered health care program. In addition, pursuant to Peruvian law, employees who work in fishing companies have the right to receive 10% of the fishing company's taxable income before taxes as profit sharing.

The Peruvian Companies recorded S/.1.5 million (approximately HK$3.2 million), S/.1.4 million (approximately HK$3.2 million) and S/.4.0 million (approximately HK$9.4 million) in 2004, 2005 and 2006, respectively, for employees' profit sharing. Further, employees who are not covered by a collective bargaining agreement, such as the Purchaser's employees, are entitled to receive each month an amount equal to 10% of the minimum wage in Peru (which is currently equivalent to S/.50.00 or HK$119.65) , if the employee has one or more children under 18 years old.

Fishing vessel crew employees. Crew employees receive a salary equivalent to 18.0% or 22.4% of the value of the fish caught on the vessel, depending on the age of the vessel. Of this amount, the first S/.20.00 (approximately HK$49.00) is provided to the first skipper and the remainder is distributed to the rest of the crew, including the first skipper. The first motorist, the second skipper, the second motorist and the cook have the right to receive a special bonus. The amount of this bonus is determined by an agreement between the employee and the employer. Employees are also entitled to certain benefits. These include (1) a paid vacation equal to 8.33% of the employee's monthly salary, (2) for each month's service, a deposit of 8.33% of the employee's salary during the month and (3) a bonus equivalent to 16.66% of the employee's monthly salary. These benefits are deposited monthly in a bank account nominated by the employee.

Each month, the Peruvian Companies deduct approximately 8.0% from each employee's salary for contribution to the Fishermen's Social Welfare and Security Fund. The Peruvian Companies also contribute an amount equals to 4.84% of each employee's salary to such fund.

Litigation of the Peruvian Companies before Acquisition

Before completion of the Acquisition and the effective merger of the Peruvian Companies into the Purchaser on 1 November 2006, the Peruvian Companies were engaged in the following litigation or claims in Peru arising in the ordinary course of business.

(a) Legal Proceedings

One of these claims relates to the title of the real property on a portion of which the Chicama plant is situated. Previously, on 5 May 2004, the Civil Court of Lima declared void the transfer of the property before its subdivision into lots and before Alexandra acquired possession of one of these lots. Alexandra filed an action on 7 November 2005 requesting (1) a declaration recognizing its senior and enforceable title to the property, and its right of possession over the property in the absence of a judicial resolution to the contrary; and (2) an order to prevent or dismiss any legal action designed to disturb, alter or restrict its right of possession. In addition, on 22 November 2005, Alexandra filed a request for an injunction to preserve the situation existing at the time of admission of its judicial claim, that is allowing Alexandra to retain possession of the property. On 25 November 2005, the court granted the injunction sought by Alexandra. However, no final decision on the other claims made in this case has yet been reached. In the opinion of the Purchaser's Peruvian counsel, Estudio Echecopar, the Purchaser should obtain a favorable decision in this case. In addition, Estudio Echecopar has opined that because Alexandra acquired the property from the seller in good faith, it should not be affected by any subsequent annulment of the transfer.

(b) Regulatory Proceedings Relating to the Vessels and the Processing Plants

There was a variety of ongoing administrative proceedings in Peru related to compliance by the Peruvian Companies' fishing vessels and processing plants with fishing and environmental laws and regulations in Peru. Possible sanctions under these administrative proceedings include payment of fines and the temporary suspension of operations of the vessel or plant that is the subject of the administrative sanction. The Peruvian Companies had recorded a provision of US$600,000 (approximately HK$4,680,000) against these administrative procedures.

(c) Labor Disputes

Currently, consistent with the practice of other fishmeal processing companies in Peru, approximately 164 employees of the fishmeal processing plants have entered into fixed employment contracts which have a standard duration of six months and are generally renewable. There are three claims pending in the Peruvian courts filed by three former employees in respect of labor benefits which would have received by them under permanent employment contracts. These employees allege that they were actually permanent employees based on their continuous relationship with Alexandra or its subsidiary notwithstanding the fixed-term nature of their contracts. The former employees claim (1) reimbursement of the unpaid labor benefits from the date of the first fixed contract to the date of the last fixed contracts and (2) an unfair dismissal indemnity. In two of these cases, the initial court has ruled in favor of the former employee and Alexandra has appealed against the court's decision in a higher court. In the other pending case, the initial court has not yet made its decision. In the two other cases filed by the two former employees, the trial court has ruled in favour of the former employees and the Peruvian Companies have appealed to a higher court, which ruled in favor of the former employee and awarded compensation, plus interest and procedure costs. The total amount at issue in these five cases amounts to approximately S/.50,000 (approximately US$15,000 or HK$123,000), plus interest and procedural costs.

In certain other cases, courts in Peru have found the existence of a permanent labor relationship where fixed term contracts are used. In those cases, Peruvian courts have forced employers to pay an indemnification for arbitrary separation equivalent to 1.5 months' salary for each full year of service calculated from the first hiring date, up to a statutory limit of 12 months' salary. In addition, employers have been required to pay to those workers an indemnification for the accrued and unutilised annual leave at a rate of one months' salary for the leave period not taken.

The Peruvian Companies may also be liable for fines assessed by the Administrative Labor Authority of Peru for the irregular hiring of fixed-term contract employees. The Administrative Labor Authority may assess a total fine of S/.6,800 (approximately US$2,099 or HK$16,700) for the irregular hiring of a fixed-term contract employee.

In addition to claims filed by fixed contract employees in relation to their employment benefits, there are also approximately 57 other claims pending in Peru which were filed by the former employees of the Peruvian Companies in respect of additional salaries and benefits. These former employees allege that the Peruvian Companies did not properly calculate their salaries and benefits according to the requirements of Peruvian law. The amounts claimed by these former employees of the Peruvian Companies amount to approximately S/.930,000 (approximately US$285,000 or HK$2,279,000) plus interest and procedural costs.

Further, the Peruvian Companies also had a dispute with the Fishermen's Social Welfare and Security Fund *(Caja de Beneficios y Seguridad Social del Pescador)* in relation to an alleged mandatory contribution of US$0.26 (approximately HK$2.03) per metric ton of fish caught by their vessels. The claim relates to unpaid contributions from March 2004 to the present. Alexandra had filed a claim with the Fishermen's Social Welfare and Security Fund disputing its obligation to pay these contributions. No resolution has yet been reached in this matter. The total amount of the unpaid contribution from March 2004 to May 2006 claimed by the Fishermen's Social Welfare and Security Fund is approximately US$90,000 (approximately HK$702,000) plus interest.

The Peruvian Companies had recorded a provision of US$315,000 (approximately HK$2,457,000) in relation to these labour disputes.

According to Peruvian law, all the above litigation or claims of the Peruvian Companies before completion of the Acquisition and the merger took place on 1 November 2006, would be carried over to the Purchaser upon completion of the Acquisition and the effective merger of the Peruvian Companies into the Purchaser on 1 November 2006.

Financial Information

The discussion below relates to the financial condition and results of operations of the Peruvian Companies for the years ended 31 December 2004, 2005 and 2006, respectively. The historical financial results of the Peruvian Companies include the results of certain assets, such as the Chimbote plant, that were excluded from the Acquisition. As a result, the results are not indicative of the results that would have been obtained had the Purchaser completed the Acquisition in the historical periods.

	For the year ended 31 December					
	2004	**2004**	**2005**	**2005**	**2006**	**2006**
	S/.'000	*HK$'000 Equiv.*	*S/.'000*	*HK$'000 Equiv.*	*S/.'000*	*HK$'000 Equiv.*
Turnover	235,916	577,994	246,770	604,587	255,335	625,571
Operating profit	21,717	53,207	35,447	86,845	61,732	151,243
Profit before tax	30,224	74.049	20,362	49,887	36,722	89,969
Profit after tax	26,316	64,474	17,405	42,642	26,877	65,849

Note: For the purpose of the above table, 1 Sol is equal to HK$2.45

2006 Compared to 2005

Revenue increased by S/.8.5 million (approximately HK$20.8 million), or 3.4%, from S/.246.8 million (approximately HK$604.6 million) for 2005 to S/.255.3 million (approximately HK$625.5 million) for 2006. The increment related to an increase in selling price of fishmeal and partially offset by the decrease in sales volume. Production volume of fishmeal was reduced in 2006 due to the decrease in total allowable catch of anchovies by 40%, comparing with 2005.

Profit from operations increased by S/.26.3 million (approximately HK$64.4 million), from S/.35.4 million (approximately HK$86.8 million) for 2005 to S/.61.7 million (approximately HK$151.2 million) for 2006. The fishing season of 2006 was substantially shorter than 2005, the number of fishing days of 2006 and 2005 are 147 days, and 240 days, respectively. This resulted in higher non production expenses for closed fishing season.

Net income increased by S/.9.5 million (approximately HK$23.2 million) from S/.17.4 million (approximately HK$42.6 million) for 2005 to S/.26.9 million (approximately HK$65.8 million) for 2006. Increase in net income was mainly due to significant increase in selling price of fishmeal and related products.

2005 Compared to 2004

Revenue increased by S/.10.9 million (approximately HK$26.7 million), or 4.6%, from S/.235.9 million (approximately HK$578.0 million) for 2004 to S/.246.8 million (approximately HK$604.6 million) for 2005. The increase was due primarily to an increase in sales volume and prices of fishmeal and related products, partially offset by a decrease in sales volumes of fish oil.

Profit from operations increased by S/.13.7 million (approximately HK$33.6 million), from S/.21.7 million (approximately HK$53.2 million) for 2004 to S/.35.4 million (approximately HK$86.8 million) for 2005, as the fishing season was shorter in 2005. This resulted in higher expenses during the closed fishing season, which were not absorbed by production.

Net income decreased by S/.8.9 million (approximately HK$21.8 million), from S/.26.3 million (approximately HK$64.4 million) for 2004 to S/.17.4 million (approximately HK$42.6 million) for 2005. The higher profit in 2004 is attributable to compensation from an insurance company for damages to machinery (S/.3.2 million) (approximately HK$7.8 million) and adjustment to inflation gain (S/.4.5 million) (approximately HK$11.0 million).

Liquidity and Capital Resources

As of 31 December 2004, 2005 and 2006, the Peruvian Companies had interest-bearing bank borrowings of S/.79.0 million (approximately HK$193.6 million), S/.63.0 million (approximately HK$154.4 million) and S/.29.4 million (approximately HK$72.0 million) respectively. The Peruvian Companies had finance lease obligations of S/.24.4 million (approximately HK$59.8 million), S/.20.9 million (approximately HK$51.2 million) and S/.17.2 million (approximately HK$42.1 million) for 2004, 2005 and 2006 respectively. Certain fishmeal processing plants, fishing vessels and inventories of the Peruvian Companies are secured for the interest-bearing bank borrowings and finance lease obligations for 2004, 2005 and 2006. In accordance with the Share Purchase Agreement, some of this indebtedness of the Peruvian Companies was deducted from the adjusted purchase price the Purchaser paid for the Peruvian Companies. Gearing ratios of the Peruvian Companies as at 31 December 2004, 2005 and 2006 were approximately 63.4%, 57.5% and 47.6%. Gearing ratio represents total debts to total assets.

As a result of the Acquisition, the Purchaser now requires cash for purchases of anchovy feedstock from third-party fishing companies in Peru. In this connection, the Purchaser, after the merger with the Peruvian Companies, has inherited from the Peruvian Companies certain working capital facilities in the amount of US$35.0 million (approximately HK$273.0 million) granted by banks in Peru. In addition, the Purchaser has entered into additional working capital facilities with banks in Peru in the amount of US$10 million (approximately HK$78 million) for the financing of raw material purchases in Peru.

Total cash and bank balances of the Peruvian Companies for 2004 and 2005 amounted to S/.1.5 million (approximately HK$3.7 million) and S/.0.8 million (approximately HK$2.0 million) respectively.

After completion of the Acquisition and the merger of the Peruvian Companies into the Purchaser took place on 1 November 2006, all the cash and bank balances of the Peruvian Companies are carried over to the Purchaser. Total cash and bank balances of the Purchaser amounted to S/.163.4 million (approximately HK$400.3 million) as of 31 December 2006.

Funding and Treasury Policy

The Peruvian Companies are exposed to exchange rate fluctuation risks, especially concerning the U.S. Dollars. Most of the Peruvian Companies' sales and purchases are denominated in U.S. Dollars while a portion of their operating expenses are denominated in Nuevo Sol. The Peruvian Companies thus borrow U.S. Dollars to hedge against their U.S. Dollar receivables. As of 31 December 2004, 2005 and 2006, the Peruvian Companies held a net borrowing of U.S. Dollars.

Business Environment in Peru

Peru has a history of political instability that included military coups and a succession of regimes with differing policies and programs. Between 1968 and 1990, the Peruvian government has played an interventionist role in the nation's economy by expropriating private sector assets and imposing price controls, exchange rate controls, restrictions on local and foreign investment and international trade, restrictions on the ability of companies to dismiss employees, expropriation of private sector assets and prohibition of the remittance of profits to foreign investors. These policies generally had an adverse effect on the economy and business environment in Peru. During the period, Peru has experienced periods of high inflation, slow or negative economic growth and substantial currency devaluation. The inflation rate in Peru, as measured by the *Indice de Precios al Consumidor* and published by the National Institute of Statistics *(Instituto Nacional de Estadistica e Informática)* reached 7,481.7% in 1990.

In July 1990, the Peruvian government, aided by foreign investment, the IMF and the World Bank, implemented a broad-based reform of Peru's political system, economy and social conditions aimed at stabilizing the economy, restructuring the national government by reducing bureaucracy, privatizing state-owned companies, promoting private investment, developing and strengthening free markets and enacting programs for the strengthening of basic services related to education, health, housing and infrastructure. Since then, the Peruvian government has maintained the broad-based reform and the economy, despite short-term setbacks during the Asian Financial Crisis and the El Niño phenomenon in 1998, has been continuously improving. The inflation rate in Peru has fallen to 1.6% in 2005. The Peruvian currency, which has been devalued numerous times during the last 20 years, has been relatively stable in the last five years. The exchange rate of the Peruvian currency has moved from a devaluation of 4,019.3% in 1990 to an appreciation of 4.4% in 2005. The Peruvian GDP increased by 7.7% in 2006, which represented the highest rate in the past eight years.

Growth up to the year 2005 had been realized by construction, investment, domestic demand and exports. Peru's economy has become one of the most liberal market economies in Latin America. The country's petroleum, natural gas and power industries are expected to increase due to relatively high domestic and foreign influx of capital in the tourism, agriculture, mining and construction sectors since 1995. It is expected that in 2007 the economy will grow at a strong rate of 6.5%.

In April 2006, Peru signed the Peru Trade Promotion Agreement with the United States, becoming the first country in the Andean Community of Nations *(Comunidad Andina de Naciones)* to sign such an agreement. As of June 2006, Peru's Congress has already approved the agreement and the pact awaits approval by the U.S. Congress. Peru is currently negotiating trade agreements with Chile, Mexico, Singapore and India.

Peru has free trade agreements with many of the countries in Latin America as well as Thailand, and during the recent APEC Summit, Peru declared intentions to sign free trade agreements with China, Japan, and South Korea. Peru is also seeking a free trade agreement with the European Union. These negotiations will greatly expand the markets in which the Peruvian products are traded.

In 2005, Peruvian exports were worth US$17.1 billion (approximately HK$133.4 billion) (an increase of 34.6% compared to 2004) and it is expected that, by the end of 2007 the exports will reach US$30 billion (approximately HK$234 billion), and the goal of the production sector and the government is to reach US$100 billion (approximately HK$780 billion) by 2012. The markets of Peru have grown in all sectors (energy, construction, commerce, fishing, manufacturing, tourism, etc) in 2005 over 6.67% (the fastest growth rates of market economies in South America) and it is projected to grow 7% for 2006 and 6.5% for 2007 leading to a 7 year in-a-row strong growth for this Andean country.

For the next five years until 2010, the Peruvian government will register more than US$10 billion (approximately HK$78 billion) in private investment (both domestic and foreign) in the mining and energy sectors, as well as investments of US$15 billion (approximately HK$117 billion) in other sectors such as industry, commerce, tourism, construction, seafood and agriculture. With an intense sub-contracting policy the government has signed agreements with many oil and gas international companies to explore for new oil reserves, it is expected that in 2009, Peru will become a net energy exporter considering that the Camisea gas project will be fully developed and new oil and gas reservoirs will be put in production.

Regulatory Environment in Peru

Fishery Regulation

The Fishing Law is the primary law regulating the fishing industry in Peru. Peru currently uses the Olympic System for regulating the fishery industry. The Fishing Law controls the industry by requiring, among other things, permits to operate fishing vessels under Peruvian or foreign flags and through licenses to operate processing plants.

The Fishing Law expressly prohibits expansion of fishing vessel fleets and processing capacity. An increase of authorizations for fishing vessels and fishing permits can only be granted under the administrative responsibility of the competent authority for the purpose of substituting equal vessel storage capacity of the existing fleet and for the same fisheries. These authorizations are granted in the event a vessel with a fishing permit sinks or becomes obsolete, and only for the purpose of replacing such vessel. Companies are also prohibited from relocating existing fishmeal processing plants to ports, bays or their influence areas in Paita, Sechura, Chimbote, Huacho, Chancay, Coishco, Samanco, Callao, Malabrigo, Pisco (Paracas) as the Peruvian government has deemed that any addition of plants to these areas could have a damaging environmental impact.

The high concentration of production units at different ports may cause environmental problems. The Peruvian government requires environmental impact assessment reports for new fishing activities and environmental management programs for those companies already operating. A producer interested in engaging in fishing activities by building a factory in replacement of an existing one has to appoint an independent entity, approved by the government, to perform this assessment.

The Fishing Law is administered by the Ministry of Production. The Ministry of Production determines the commencement and the duration of each fishing season as well as the annual total allowable catch per fishing season. Closed fishing seasons and open fishing seasons are determined by the Vice Ministry of Fishing. Open fishing seasons cannot be specified in advance, although historically the open fishing seasons have been from March/April to June/July and October/November to December.

Closed fishing seasons are normally established during the fish's reproductive period, or when the total allowable catch for an open fishing season has been reached. The requirements relating to the closed fishing seasons and the annual total allowable catch are only applicable in the center and northern region of Peru. In the southern region of Peru, fishing is not subject to limitation on the total allowable catch. In September 2002, the Peruvian government banned the harvesting of Chilean jack mackerel, chub mackerel and sardines for utilization as feedstock for the production of fishmeal. These species are now only permitted to be used for human consumption. As a result, currently the only species allowed for fishmeal production in Peru is the anchovy. During closed fishing seasons for anchovy in the center and northern regions of Peru, there is no anchovy feedstock available for fishmeal and fish oil processing plants in the northern and central regions of Peru.

The Fishing Law also prohibits the harvesting of anchovy and other fish by industrial fishing vessels in designated reserve or prohibited areas, which include the coastal area within five miles of shore. In addition, fishing vessels are prohibited from sailing at fishing speeds (i.e. at a speed of less than two knots per hour) and with an unsteady course for two or more hours in the reserve or prohibited areas. These provisions are enforced through satellite monitoring by the Peruvian Navy.

The Fishing Law and its regulations also prohibit the harvesting of anchovy and other fish in sizes or weights under established limits. With respect to anchovy, the fishing regulations provide that anchovy with a total length of less than 12 centimeters must not exceed 10% of the total catch of the vessel.

The Ministry of Production has the power to bring administrative proceedings for violations of the Fishing Law and related regulations and to impose sanctions against violators, including the imposition of fines and the temporary suspension of the fishing permits of fishing vessels and the operating licenses of the processing plants. Under the Fishing Law, in the case of a serious violation, when there has been two previous cases resulting in a final sanction for the same conduct by the same owner or operator, the fishing permit of the fishing vessel or the operating license of the processing plant, as the case may be, will be cancelled. However, the transfer of a fishing vessel or processing plant to a new owner extinguishes the record of the vessel or plant of previous violations. The record of the previous violations in relation to the vessels and plants acquired in the Acquisition were extinguished following the merger of the Peruvian Companies with the Purchaser.

Peru uses the Olympic System, meaning fishing is prohibited in the center and northern regions of Peru once the annual total allowable catch of a particular fish species has been harvested. Historically, the existing Olympic System in Peru has led to a significant amount of illegal fishing. In 2003, the Peruvian government estimated that the illegal volumes supplemented the official stocks by around 20.0% of the declared formal fishing allowances. Illegal fishing existed in many forms including: vessels fishing without licenses, vessels catching more tonnage than authorized, fishing of unauthorized species for fishmeal (such as Chilean jack mackerel, chub mackerel and sardine, the fishing of which is reserved for human consumption in Peru), vessels fishing using the license of another vessel and vessels appearing with the name and papers of another authorized vessel (cloned vessels).

In January 2004, as a result of the Fishery Discharge Control Program, the Peruvian government contracted SGS to perform monitoring functions and supervise and enforce Peruvian fishing regulations. SGS has established offices along the Peruvian coast, recruited and trained inspectors, implemented procedures to control fishing and collected daily statistical data for the Ministry of Production. The private fishing sector producers agreed to pay for this service and company contributions vary according to the amount of tonnage caught. SGS inspectors monitor fishing in the fishing regions and the fishmeal processing plants, especially during the fishing seasons. SGS inspects catch quantities, the percentage of juveniles caught and, to a limited extent, by-catch levels. In addition, inspectors register and verify a fishing vessel's data, the license of the vessel and species being caught. On the quays, inspectors control and report the discharged tonnage and verify the performance of the weighing instruments in use. The arrangements with SGS, which are subject to renewal on an annual basis, were last renewed in June 2006.

The Instituto del Mar del Peru, or IMARPE, was created in 1981 to ensure the sustainability of Peruvian fishing resources. IMARPE is a public decentralized entity and the role of the institution is not to supervise, inspect or control, but rather to study and monitor the environment and marine biodiversity. IMARPE independently evaluates the condition of fishing resources and based upon their research they make recommendations to the Ministry of Production with regards to the total allowable catch for the year. Further, based upon their research, IMARPE makes recommendations as to commencement dates and duration of the fishing seasons.

Regulation of Foreign Currency Exchange and Dividend Distributions

There are currently no restrictions under Peruvian law on the export or import of capital, including foreign exchange controls, or restrictions on the remittance of dividends, interest or other payments to non-resident investors. The principal regulations governing foreign currency exchange and the declaration and distribution of dividends in Peru are:

- Supreme Decree No.162-92-EF;
- Legislative Decree No.757; and
- Legislative Decree No.662,

(collectively, "the Decrees").

The Decrees set out the principle of non-discrimination among investors and enterprises on the basis of nationality. Foreign investments are allowed, without restrictions, in most economic activities. No prior authorization is required for foreign investments and acquisition of the shares of Peruvian entities is fully allowed. In addition, there is no limitation on the form that foreign investments may take. Foreign investors have the freedom to conduct commercial and industrial activities in Peru and to engage in imports and exports of goods and services. The right of non-discrimination also extends to matters including foreign exchange and the declaration and distribution of dividends. Investments made with foreign resources are also entitled to guarantees under the Decrees ("Guarantees") relating to, among other things, the ability to remit abroad profits and capital and the right to use the most favorable exchange rate existing in the currency exchange market.

For foreign investments to enjoy the Guarantees, the investment must be channeled through the National Banking System, registered with the National Competency Agency and not be detrimental to relevant tax obligations. The rights granted under the Decrees do not exempt the investors or enterprises from the obligation to pay income tax, to retain a legal binding reserve, directors' and managers' duties where there is a loss of capital stock or where there has been a false declaration of profits, and any workers' share of the enterprise's profits.

Foreign investors and the enterprises in which they invest may protect themselves from changes in Peruvian law by executing a Legal Stability Agreement with the Peruvian government. The Legal Stability Agreement (1) is a civil contract; (2) has legal force between the parties so that it cannot be unilaterally amended while it is in force; (3) must be executed before the investment is made; (4) is valid for a 10-year term; (5) may be assigned, provided the prior authorization of the competent national body is obtained; and (6) will be automatically terminated if the investment commitments are not performed within two years of the agreement. The Legal Stability Agreement will entitle foreign investors, upon satisfaction of certain requirements, to enjoy, for a 10-year period after the execution of the agreement, the stability of the Guarantees. The matters on which the Peruvian government guarantees stability under the Legal Stability Agreement are the following:

- taxes on dividends received by the foreign investor and income taxes paid by the invested company (as long as the amount of the total committed investment is higher than 50% of the company's capital stock and reserves and the proceeds of the investment is used to increase the company's productive or technological capacities);
- the right to non-discrimination between local and foreign investors;
- the right to use the most favorable exchange rate existing in the currency exchange market;
- the free availability of foreign currency;
- the right to freely transfer abroad any profits, dividends and capital;
- labor laws; and
- export promotion regimes.

Under the Decrees, the Nuevo Sol is freely convertible for the remittance of profits and capital. Foreign investors may freely transfer out of Peru without restraint their invested capital as well as the profits from the invested enterprise and no prior authorization is needed from any central government authority, decentralized public entities or from regional or municipal governments. However, remittance is limited to the full amount of the capital invested in Peru from foreign sources. Such capital includes the capital resulting from the sale of shares, participation or rights over enterprises, reduction of capital and partial or total liquidation of enterprises. Remittance is also limited to the full amount of verified net profits resulting from the investment.

Under the Decrees, enterprises may distribute the full amount of dividends generated from the investors' investment and the investors have the right to receive the full amount of these dividends.

On 13 February 2007, the Purchaser and the Peruvian Government entered into the Legal Stability Agreement.

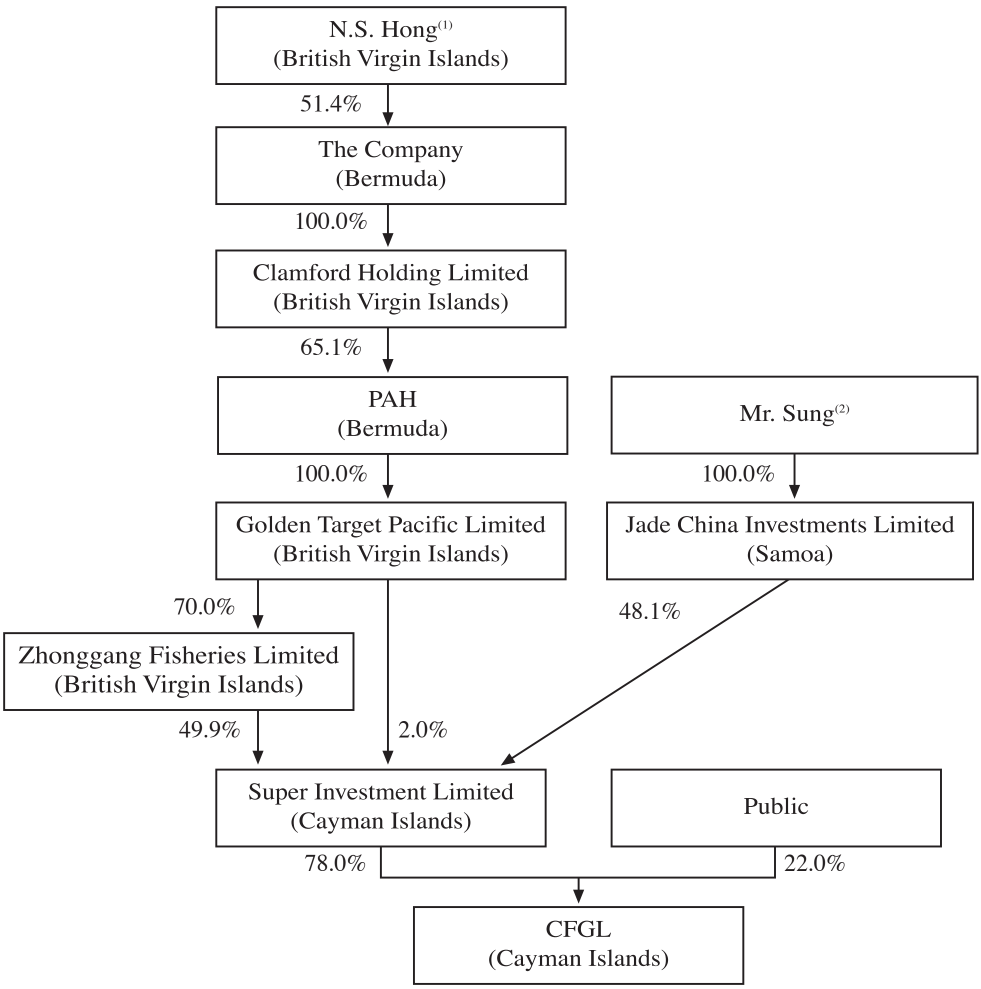
Bilateral Investment Treaties and Investment Agreements

Peru has signed bilateral treaties on the promotion and reciprocal protection of investments with 29 countries in Asia, Europe and South America. In addition, Peru entered into a bilateral agreement with Singapore, which has been effective since 12 August 2006. CFG Singapore, the Singapore incorporated subsidiary of CFGL, which holds all of the issued share capital of the Purchaser, is able to take advantage of the protections afforded by the treaty. These protections include a guarantee of the right to freely transfer outside of Peru capital, dividends, profits, royalties and certain fees, as well as payments for loans, technical assistance, projects and income of Singaporean employees appointed to work in Peru.

Peru is also a signatory to the International Center for Settlement of Investment Disputes under the Convention on the Settlement of Investment Disputes Between States and Nationals of Other States, as well as to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

4. INFORMATION ON THE GROUP

The Company is a holding company of CFGL. Through various holding companies, the Company is indirectly interested in approximately 18.7% of the issued share capital of CFGL on an attributable basis as at the Latest Practicable Date and can exercise voting control over CFGL. The following chart shows the organization structure:



(1) 100% owned by Teh Hong Eng, Ng Joo Kwee, Ng Joo Chuan, Ng Puay Yee, Ng Joo Thieng, Tresia Halim, Ng Joo Siang and Ng Joo Puay, collectively.

(2) Mr. Sung Yu Ching, Managing Director of CFGL.

The Principal activities of the Pacific Andes Group are set out as follows:

The Company (Listed on the Stock Exchange)	Processing on shore and international distribution of a variety of frozen seafood products
PAH (Listed on the SGX-ST)	Global Sourcing, supply chain management and trading of frozen seafood products
	Trading of marine fuel and provision of shipping and agency services
CFGL (Listed on the SGX-ST)	Fishing and provision of fishing management services for fishing vessels

5. REASONS FOR THE ACQUISITION

CFGL is an upstream industrial fishing operator, principally in the Pacific Ocean. In 2006, CFGL harvested 140,000 metric tons of frozen fish and other marine species, primarily Alaskan pollock, Pacific cod and herring in the North Pacific Ocean and Chilean jack mackerel in the South Pacific Ocean.

CFGL currently operates and manages 23 Super Trawlers in the Pacific Ocean with a total tonnage of approximately 104,641 gross tons and owns and operates 23 fishing vessels and four fishmeal processing plants in Peru acquired from May 2006 to March 2007 and through the Acquisition.

The Directors are of the view that the Acquisition presented an attractive opportunity for CFGL to expand its fishing operations and catch volumes in the Peruvian waters. According to the FAO, Peru is the second-largest ocean catch producer of fish in the world for its abundant resources of Peruvian anchovy, the fish species with the largest total catch volume in the world. Peruvian anchovy is primarily used as a raw material to produce fishmeal. As a result, Peru is also the largest producer of fishmeal in the world.

The Acquisition has given CFGL the following benefits:

- CFGL currently has a key operational position in Peru, the world's largest producer of fishmeal;
- CFGL, through the Purchaser, operates four fishmeal processing plants with the capacity to process approximately 381 metric tons of anchory feedstock per hour;
- CFGL, in addition to the 10 fishing vessels with a total storage capacity of approximately 2,843 cubic meters which were acquired from May 2006 to March 2007, has access to an additional 13 fishing vessels with a total storage capacity of approximately 3,839 cubic meters, and licenses to fish in Peruvian waters;

- the Peruvian Companies harvested 2.6% of the total anchovy caught in Peru in 2005 and their production and exports of fishmeal represented 5.5% and 5.6%, respectively, of the total Peru production and exports of fishmeal in 2005;

- CFGL currently has the infrastructure and administrative offices in Peru to provide administrative support to enhance its fishing operations in the South Pacific Ocean where it currently does not have any sizable fishing operation;

- the current product mix of CFGL has been extended and diversified to also include Peruvian anchovy-based fishmeal and fish oil; and

- CFGL currently has another platform to benefit from the growth in the PRC, the largest consumer of fishmeal in the world for use in its expanding aquaculture and agriculture activities.

In light of the above, the Directors believe that the Acquisition will be a synergistic investment which offers short-term and mid-term opportunities and commercial benefits to the Group as a whole. Taking into account the increasing price level of Peruvian fishmeal, the valuation of the Main Assets and the market value of the Sale Shares, the Directors consider the Consideration and the terms of the Share Purchase Agreement fair and reasonable and are in the interests of the Shareholders as a whole.

6. PROSPECTS OF THE ENLARGED GROUP

As consumers have become more and more health conscious and their dietary habits shift towards a healthy and balanced food diet, global demand for fishery products has steadily increased. Thus, the Group remains bullish on the overall market environment and its business development. With CFGL integrated into its operation earlier this year, the Group has a better control of the entire supply chain of its frozen seafood operations – from harvesting and sourcing to processing and distribution of seafood products worldwide.

According to a 2004 study by the FAO, 2.8 billion people worldwide consume fish for at least 20% of their animal protein intake and potential global demand for fish is expected to grow by more than 35% from 133 million metric tons in 2001 to 183 million metric tons by 2015. The supply of wild catch, however, has remained steady in the past 10 years and increasing aquaculture production is not deemed sufficient to satisfy increasing demand. The imbalance between demand and supply has and will continue to create a favourable pricing environment for fishery products.

In order to capture this tremendous potential more effectively, the Group has been forging ahead by acquiring access to more fish resources and reaching further down the vertical industry chain. The Acquisition is a step in such direction.

The Acquisition has allowed the Group to gain access to the fishing and fishmeal processing sectors in Peru, the world's largest producer of fishmeal. It has also enabled the Group to extend and diversify its product to include Peruvian anchovy-based fishmeal and fish products. Ideally located, Peru will also make a cost effective base for the Group to expand its fishing grounds as one of the most productive fishing areas in the world and tap the largest fishmeal market in the world, i.e. the PRC and its growing demand for fish products.

To meet the increasing world demand, the other key strategy of the Group is to enhance its processing capability. The Group is building a new processing complex in Qingdao which will be equipped with advanced processing lines capable of producing 60,000 metric tons of frozen fish fillets and portions per year. The expansion will help the Group to achieve significant economies of scale and greater efficiency in processing wild catch resources. Advanced technology employed will allow greater value-added processing and the production of fishmeal without unnecessary wastage. The new complex is expected to markedly enhance the Group's production yields, profit margins and profitability in the long run.

Demand for fish products around the world, in particular from the growing affluent PRC, has been rising consistently. The PRC's fish consumption per capita was estimated at 25.8 kilograms ("kg") in 2004 against 11.5 kg in 1990, and according to FAO projection, fish consumption per capita in China will reach 34.3 kg by 2030. As the PRC's largest frozen fish importer, the Group currently accounts for approximately a quarter of the country's total import value of frozen fish. To grow this share further, the Group has been actively diversifying its product mix by identifying fish species from different parts of the world and introducing them into the PRC market. This strategy, which has been in place since 1990, has been successful. Fish products, for example, Alaska Pollock, Herring and Atlantic Cod have been well received by consumers.

To ensure it has sufficient funds to support its different growth initiatives, the Group has signed an agreement with a group of 20 international and local banks for a US$160 million (approximately HK$1.25 billion) term loan facility. The proceeds will be used to finance the construction of the Group's new processing plant in Hongdao, Qingdao and to refinance and convert the Group's short term borrowings into long term borrowings. This debt refinancing or maturity conversion will also enable the Group to cut down its interest expenses of about HK$15 million per annum.

7. IMPACT OF THE ACQUISITION ON THE GROUP

Set out in the Appendix III to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial impact of the Acquisition on the net assets and liabilities of the Group, assuming the Acquisition had been completed as at 30 September 2006.

Net asset value

As set out in the pro forma balance sheet of the Enlarged Group in Appendix III to this circular, goodwill of approximately HK$546.6 million was generated as a result of the Acquisition, which represents the excess of the Consideration paid over the Group's interest in the estimated fair value of the net identifiable assets and liabilities of the Peruvian Companies. Such amount will be recorded as an intangible asset in the consolidated balance sheet of the Enlarged Group and subject to an annual impairment test annually as stipulated under the Hong Kong Financial Reporting Standards. The unaudited pro forma consolidated net assets of the Enlarged Group is approximately HK$3,164.9 million same as the unaudited consolidated net assets of the Group of approximately HK$3,164.9 million as at 30 September 2006.

Earnings

Upon Completion, the Peruvian Companies became indirect wholly-owned subsidiaries of CFGL, a non-wholly owned subsidiary of the Company and the results of the Peruvian Companies will be consolidated into the Group's financial statements. The Directors believe that the Acquisition will contribute to the earnings base of the Group but the quantification of such impact will depend on the future performance of the Peruvian Companies.

8. LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company pursuant to Chapter 14 of the Listing Rules and is, therefore, subject to the approval of the Shareholders. N.S. Hong, a company which holds approximately 51.4% of the issued share capital of the Company as at the Latest Practicable Date, does not have any interest or benefit under the Acquisition not available to other Shareholders. No Shareholder (including N.S. Hong) would be required to abstain from voting at any shareholders' general meeting, if convened, to approve the Acquisition.

The Acquisition has accordingly been approved in writing by N.S. Hong pursuant to Rule 14.44 of the Listing Rules, and no general meeting is required to be convened.

9. LATEST DEVELOPMENT OF THE GROUP

On 20 March 2007, Golden Target Pacific Limited entered into the sale and purchase agreement to acquire a 45% interest in Super Investment Limited from Jade China Investment Limited at a consideration of US$356 million (approximately HK$2,777 million) (the "Super Investment Acquisition"). Completion of the sale and purchase agreement is conditional upon, amongst other things, PAH raising a total of no less than US$308 million (approximately HK$2,402 million) by way of (a) consummation of the proposed rights issue of PAH and the proposed convertible bonds issue of PAH; (b) PAH generating funds form its internal resources; (c) PAH raising finance by external resources; or (d) such other means as PAH may decide. The consideration for the Super Investment Acquisition was arrived at through arm's length negotiation with reference to the market value of CFGL Shares which are the primary assets of the Super Investment Limited.

PAH intends to fund the Super Investment Acquisition by way of funds raised under the proposed rights issue of PAH and the proposed convertible bonds issue of PAH and by internal resources of PAH or by external bank financing. It is expected that the gross proceeds from the proposed convertible bonds issue of PAH and the proposed rights issue of PAH will be approximately US$93 million (approximately HK$725 million) and US$226 million (approximately HK$1,760 million) respectively. It is intended that PAH will raise approximately US$37 million (approximately HK$289 million) from external bank financing. In the event the proposed convertible bonds issue of PAH does not proceed, PAH is expected to have sufficient funding to complete the Super Investment Acquisition.

Details of the relevant proposed rights issue of PAH and the relevant proposed convertible bonds issue of PAH, are set out in the announcement of the Company dated 23 March 2007.

10. ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Pacific Andes International Holdings Limited
Ng Joo Siang
Managing Director

I. SUMMARY OF FINANCIAL INFORMATION

The following information has been extracted from the unaudited interim results of the Group for the six months ended 30 September 2006 and the audited financial statements of the Group for each of the three years ended 31 March 2006.

(i) Results

			Years ended 31 March		
	30.9.2006	**30.9.2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Turnover	3,789,776	2,487,486	6,156,997	5,298,276	4,393,427
Cost of sales	(3,178,717)	(2,100,611)	(5,226,505)	(4,675,047)	(3,943,102)
Gross profit	611,059	386,875	930,492	623,229	450,325
Other income	43,878	10,086	49,969	10,501	13,235
Selling and distribution expenses	(46,190)	(55,519)	(145,834)	(116,472)	(102,909)
Administrative expenses	(114,966)	(120,510)	(240,001)	(155,011)	(127,110)
Other expenses	–	–	(32,850)	(16,314)	(3,744)
Gain on dilution of interest in a subsidiary	–	–	81,261	–	–
Loss on deemed disposal of interest in a subsidiary	–	(12,729)	(12,729)	(1,196)	(2,555)
Finance costs	(111,920)	(74,864)	(204,220)	(97,731)	(76,186)
Share of results of associates	1,002	13	(378)	(746)	(1,380)
Profit before taxation	382,863	133,352	425,710	246,260	149,676
Taxation	(12,014)	(3,060)	(14,286)	(3,265)	(1,446)
Profit for the period/year	370,849	130,292	411,424	242,995	148,230
Attributable to:					
Equity holders of the Company	176,132	71,152	183,058	163,228	111,630
Minority interests	194,717	59,140	228,366	79,767	36,600
	370,849	130,292	411,424	242,995	148,230
	30.9.2006	**30.9.2005**	**2006**	**2005**	**2004**
	HK cents	*HK cents*	*HK cents*	*HK cents*	*HK cents*
Earnings per share					
Basic	16.0	7.1	18.3	16.3	14.8
Diluted	15.7	7.1	18.2	16.3	14.3

(ii) Assets and liabilities

	As at 30.9.2006 HK$'000 (unaudited)	As at 31 March 2006 HK$'000 (audited)	2005 HK$'000 (audited)	2004 HK$'000 (audited)
Non-current assets				
Property, plant and equipment	757,725	578,205	391,705	334,959
Investment properties	109,333	104,835	90,700	55,900
Prepaid lease payments	28,045	28,039	27,124	–
Goodwill	137,361	129,500	120,189	16,757
Negative goodwill	–	–	(20,399)	(3,166)
Deferred charter hire	800,670	604,890	175,692	–
Interests in associates	2,092	1,090	1,468	2,214
Loan to a jointly-controlled entity	11,050	11,050	–	–
Loan receivables	33,050	33,163	–	–
Intangible assets	67,683	22,763	–	–
Deposit paid for acquisition of property	20,666	–	–	–
Deposit paid for acquisition of subsidiaries	101,400	–	–	–
Other long term receivable	928	928	–	–
Other investments	–	–	29,327	23,891
	2,070,003	1,514,463	815,806	430,555
Current assets				
Inventories	1,869,596	1,951,465	1,403,944	888,038
Trade, bills and other receivables	1,303,147	2,329,681	1,701,881	1,164,664
Trade receivables with insurance coverage	283,306	252,893	314,423	352,317
Trade receivables from associates	141,229	119,988	67,378	61,617
Amounts due from associates	23,746	23,074	8,857	7,279
Advances to suppliers	–	–	31,386	–
Amount due from a jointly-controlled entity	864	575	41,816	–
Tax recoverable	861	1,124	492	320
Pledged deposits	885	1,789	13,845	3,788
Bank balances and cash	395,811	337,271	282,442	358,458
	4,019,445	5,017,860	3,866,464	2,836,481
Current liabilities				
Trade and other payables	440,532	362,928	539,443	157,244
Bank advances drawn on discounted trade receivables with insurance coverage and discounted bills	276,388	437,189	286,228	170,031
Amount due to an associate	7,406	7,847	7,863	–
Taxation	23,684	13,924	7,782	2,833
Obligation under finance lease – due within one year	1,536	–	–	–
Bank borrowings – due within one year	1,366,868	2,865,340	1,936,607	1,251,392
	2,116,414	3,687,228	2,777,923	1,581,500
Net current assets	1,903,031	1,330,632	1,088,541	1,254,981
Total assets less current liabilities	3,973,034	2,845,095	1,904,347	1,685,536

Assets and liabilities

	As at 30.9.2006 HK$'000 (unaudited)	As at 31 March 2006 HK$'000 (audited)	2005 HK$'000 (audited)	2004 HK$'000 (audited)
Non-current liabilities				
Obligation under finance lease – due after one year	7,144	–	–	–
Bank borrowings – due after one year	741,467	208,504	92,863	71,624
Amount due to joint venture partner of a jointly-controlled entity	11,050	11,050	–	–
Deferred taxation	48,477	26,490	21,826	15,950
	808,138	246,044	114,689	87,574
Net assets	3,164,896	2,599,051	1,789,658	1,597,962
Capital and reserves				
Share capital	120,173	101,586	99,942	99,882
Share premium and reserves	1,871,673	1,478,813	1,293,062	1,131,596
Equity attributable to equity holders of the Company	1,991,846	1,580,399	1,393,004	1,231,478
Minority interests	1,173,050	1,018,652	396,654	366,484
Total equity	3,164,896	2,599,051	1,789,658	1,597,962

II. AUDITED CONSOLIDATED FINANCIAL STATEMENT OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2006

The following financial information has been extracted from the annual report of the Company for the year ended 31 March 2006 together with notes thereto:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

		2006	2005
	NOTES	*HK$'000*	*HK$'000*
			(restated)
Turnover	*4*	6,156,997	5,298,276
Cost of sales		(5,226,505)	(4,675,047)
Gross profit		930,492	623,229
Other income	*5*	49,969	10,501
Selling and distribution expenses		(145,834)	(116,472)
Administrative expenses		(240,001)	(155,011)
Other expenses	*6*	(32,850)	(16,314)
Gain on dilution of interest in a subsidiary	*28(a)*	81,261	–
Loss on deemed disposal of interest in a subsidiary	*16*	(12,729)	(1,196)
Finance costs	*7*	(204,220)	(97,731)
Share of results of associates		(378)	(746)
Profit before taxation	*8*	425,710	246,260
Taxation	*10*	(14,286)	(3,265)
Profit for the year		411,424	242,995
Attributable to:			
Equity holders of the Company		183,058	163,228
Minority interests		228,366	79,767
		411,424	242,995

		2006	2005
		HK cents	*HK cents*
Earnings per share	*12*		
Basic		18.3	16.3
Diluted		18.2	16.3

CONSOLIDATED BALANCE SHEET
At 31 March 2006

	NOTES	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	13	578,205	391,705
Investment properties	14	104,835	90,700
Prepaid lease payments	15	28,039	27,124
Goodwill	16	129,500	120,189
Negative goodwill	17	–	(20,399)
Deferred charter hire	18	604,890	175,692
Interests in associates	19	1,090	1,468
Loan to a jointly-controlled entity	20	11,050	–
Loan receivables	21	33,163	–
Intangible assets	22	22,763	–
Other long term receivable	22	928	–
Other investments	22	–	29,327
		1,514,463	815,806
Current assets			
Inventories	23	1,951,465	1,403,944
Trade, bills and other receivables	24	2,329,681	1,701,881
Trade receivables with insurance coverage	25	252,893	314,423
Trade receivables from associates	26	119,988	67,378
Amounts due from associates	26	23,074	8,857
Advances to suppliers	27	–	31,386
Amount due from a jointly-controlled entity	28	575	41,816
Tax recoverable		1,124	492
Pledged deposits	29	1,789	13,845
Bank balances and cash	30	337,271	282,442
		5,017,860	3,866,464
Current liabilities			
Trade and other payables	31	362,928	539,443
Bank advances drawn on discounted trade receivables with insurance coverage and discounted bills	25	437,189	286,228
Amount due to an associate	26	7,847	7,863
Taxation		13,924	7,782
Bank borrowings – due within one year	32	2,865,340	1,936,607
		3,687,228	2,777,923
Net current assets		1,330,632	1,088,541
Total assets less current liabilities		2,845,095	1,904,347

	NOTES	2006 HK$'000	2005 HK$'000 (restated)
Non-current liabilities			
Bank borrowings – due after one year	32	208,504	92,863
Amount due to joint venture partner of a jointly-controlled entity	33	11,050	–
Deferred taxation	34	26,490	21,826
		246,044	114,689
Net assets		2,599,051	1,789,658
Capital and reserves			
Share capital	35	101,586	99,942
Share premium and reserves		1,478,813	1,293,062
Equity attributable to equity holders of the Company		1,580,399	1,393,004
Minority interests		1,018,652	396,654
Total equity		2,599,051	1,789,658

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2006

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium HK$'000	Revaluation reserve– properties HK$'000	Revaluation reserve– investment properties HK$'000	Translation reserve HK$'000	Goodwill reserve HK$'000	Special reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2004	99,882	633,304	29,337	–	2,539	(115,069)	9,800	571,685	1,231,478	366,484	1,597,962
Surplus on revaluation of properties	–	–	42,218	13,928	–	–	–	–	56,146	–	56,146
Deferred tax liability arising on revaluation of properties	–	–	(7,429)	(2,441)	–	–	–	–	(9,870)	–	(9,870)
Exchange differences arising on translation of foreign operations	–	–	–	–	330	–	–	–	330	136	466
Net income recognised directly in equity	–	–	34,789	11,487	330	–	–	–	46,606	136	46,742
Profit for the year	–	–	–	–	–	–	–	163,228	163,228	79,767	242,995
Total recognised income for the year	–	–	34,789	11,487	330	–	–	163,228	209,834	79,903	289,737
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	(42,707)	(42,707)
Contributions from minority interests	–	–	–	–	–	–	–	–	–	5,561	5,561
Loss on deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	1,196	1,196
Dividends paid	–	–	–	–	–	–	–	(48,972)	(48,972)	(13,783)	(62,755)
Share issued at premium	60	615	–	–	–	–	–	–	675	–	675
Transaction costs attributable to issue of new shares	–	(11)	–	–	–	–	–	–	(11)	–	(11)
At 31 March 2005, as restated	99,942	633,908	64,126	11,487	2,869	(115,069)	9,800	685,941	1,393,004	396,654	1,789,658
Effects of changes in accounting policies *(note 2)*	–	–	–	(11,487)	–	(20,844)	–	52,730	20,399	–	20,399
At 1 April 2005, as restated	99,942	633,908	64,126	–	2,869	(135,913)	9,800	738,671	1,413,403	396,654	1,810,057
Surplus on revaluation of properties	–	–	25,365	–	–	–	–	–	25,365	–	25,365
Deferred tax liability arising on revaluation of properties	–	–	(1,309)	–	–	–	–	–	(1,309)	–	(1,309)
Exchange differences arising on translation of foreign operations	–	–	–	–	(4,439)	–	–	–	(4,439)	(1,301)	(5,740)
Net income (expense) recognised directly in equity	–	–	24,056	–	(4,439)	–	–	–	19,617	(1,301)	18,316
Profit for the year	–	–	–	–	–	–	–	183,058	183,058	228,366	411,424
Total recognised income and expense for the year	–	–	24,056	–	(4,439)	–	–	183,058	202,675	227,065	429,740

	Attributable to equity holders of the Company										
	Share capital	Share premium	Revaluation reserve– properties	Revaluation reserve– investment properties	Translation reserve	Goodwill reserve	Special reserve	Retained profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Acquisition for subsidiaries	–	–	–	–	–	–	–	–	–	11,487	11,487
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	(22,418)	(22,418)
Consolidation of former jointly-controlled entities	–	–	–	–	–	–	–	–	–	135,959	135,959
Proceeds from shares issued by a subsidiary	–	–	–	–	–	–	–	–	–	355,977	355,977
Gain on dilution of interest in a subsidiary	–	–	–	–	–	–	–	–	–	(81,261)	(81,261)
Loss on deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–	12,729	12,729
Dividends paid	–	–	–	–	–	–	–	(54,187)	(54,187)	(17,540)	(71,727)
Share issued at premium	1,644	17,099	–	–	–	–	–	–	18,743	–	18,743
Transaction costs attributable to issue of new shares	–	(235)	–	–	–	–	–	–	(235)	–	(235)
At 31 March 2006	101,586	650,772	88,182	–	(1,570)	(135,913)	9,800	867,542	1,580,399	1,018,652	2,599,051

The retained profits of the Group include losses of HK$830,000 (2005: losses of HK$310,000) and a loss of HK$609,000 (2005: profit of 81,595,000) attributable to associates and a jointly-controlled entity of the Group, respectively.

The special reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the Company's shares issued for the exchange of shares under the group reorganisation in 1994.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2006

	2006	2005
	HK$'000	*HK$'000*
		(restated)
OPERATING ACTIVITIES		
Profit before taxation	425,710	246,260
Adjustments for:		
Interest income	(29,413)	(2,294)
Interest expense	204,220	97,731
Amortisation of deferred charter hire	54,417	16,566
Share of results of associates	378	746
Amortisation of prepaid lease payments	280	280
Depreciation of property, plant and equipment	51,705	28,149
Impairment loss on property, plant and equipment	6,162	–
Amortisation of goodwill	–	5,396
Impairment loss on goodwill	13,355	–
Release of negative goodwill	–	(1,157)
Impairment loss on unlisted equity securities	–	200
Allowance for amount due from associates	574	5,000
Revaluation decrease (increase) on revaluation of land and buildings	1,610	(257)
Fair value changes on investment properties	(4,188)	–
Loss on deemed disposal of interest in a subsidiary	12,729	1,196
Gain on dilution of interest in a subsidiary	(81,261)	–
Loss on disposal of property, plant and equipment	793	1,894
Operating cash flows before movements in working capital	657,071	399,710
Payment of charter hire	(390,000)	–
Increase in inventories	(508,595)	(515,906)
Increase in trade, bills and other receivables	(465,485)	(467,314)
Decrease in trade receivables with insurance coverage	61,530	37,894
Increase in trade receivables with associates	(52,610)	(5,761)
Decrease (increase) in advances to suppliers	31,386	(31,386)
Increase in amount due from associates	(14,791)	(6,578)
Decrease (increase) in amount due from a jointly-controlled entity	41,241	(42,279)
(Decrease) increase in trade and other payables	(335,033)	147,945
(Decrease) increase in amount due to an associate	(16)	7,863
Cash used in operation	(975,302)	(475,812)
Tax paid	(5,405)	(2,482)
Interest paid	(169,223)	(88,721)
NET CASH USED IN OPERATIONS	(1,149,930)	(567,015)

	Notes	2006 HK$'000	2005 HK$'000 (restated)
INVESTING ACTIVITIES			
Interest received		29,413	2,294
Proceed on disposal of investment properties		5,500	–
Proceed on disposal of property, plant and equipment		953	3,115
Addition to property, plant and equipment		(161,218)	(96,375)
Addition to prepaid lease payments		(1,225)	–
Addition to investment properties		(1,212)	–
Purchase of investments in securities		–	(5,636)
Decrease (increase) in pledged deposits		12,056	(10,057)
Loan to a jointly-controlled entity		(11,050)	–
Loan receivables		(33,163)	–
Proceeds from shares issued by a subsidiary		355,977	–
Acquisition of additional interest of a subsidiary		(26,490)	(27,852)
Acquisition of subsidiaries	*38*	(8,048)	–
Cash inflow arising on consolidation of former jointly-controlled entity	*39*	78,888	–
Acquisition of a jointly-controlled entity	*40*	(31,682)	(141,077)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		208,699	(275,588)
FINANCING ACTIVITIES			
Issue of ordinary share capital		18,743	675
Share issue expenses		(235)	(11)
Dividend paid to minority shareholders		(17,540)	(13,783)
Dividend paid		(54,187)	(48,972)
Net bank borrowings raised		889,590	685,650
Mortgage loans raised		–	35,600
Mortgage loans repaid		(13,477)	(8,865)
Net bank advances drawn on discounted trade receivables with insurance coverage and discounted bills raised		150,961	116,197
Contribution by minority interests		–	5,561
Advance from joint venture partner of a jointly-controlled entity		11,050	–
Increase (decrease) in bank overdrafts		18,189	(5,931)
NET CASH FROM FINANCING ACTIVITIES		1,003,094	766,121

	Notes	2006 HK$'000	2005 HK$'000 (restated)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT		61,863	(76,482)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR		282,442	358,458
Effect of foreign exchange rate changes		(7,034)	466
CASH AND CASH EQUIVALENT AT END OF THE YEAR		337,271	282,442
Representing:			
Bank balances and cash		337,271	282,442

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006

1. General

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report. Its ultimate holding company is N.S. Hong Investment (BVI) Limited ("NSH"), a company incorporated in the British Virgin Islands.

The Company acts as an investment holding company and provides corporate management services to group companies. Details of the principal activities engaged in by the principal subsidiaries, associates and a jointly-controlled entity are set out in notes 50, 51 and 28 respectively.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. Application of Hong Kong Financial Reporting Standards and Changes In Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented.

Business Combinations

For the year ended 31 March 2005, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1 January 2005. In the current year, the Group has applied the transitional provisions of HKFRS 3 and the principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and goodwill arising on acquisitions after 1 April 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves continues to be held in reserves and will be transferred to the retained profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2005 have not been restated.

In the current year, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on a acquisition of foreign operations was reported at historical rate at each balance sheet date. The Group applied the requirement prospectively. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 April 2005 is treated as a non-monetary foreign currency item of the Group. Therefore, no prior year adjustment has been made.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes places. In previous years, negative goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 April 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 April 2005 (of which negative goodwill of HK$20,844,000 was previously recorded in reserves and of HK$20,399,000 was previously presented as a deduction from assets) with a corresponding increase to retained profits.

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over share ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 in accordance with the relevant transitional provisions. The Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 April 2005. However, share options of the Group were granted before 7 November 2002 and therefore no retrospective application of HKFRS 2 was made by the Group.

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no impact on how financial instrument of the Group are presented for current and prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its investments in equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments in equity securities of the Group are classified as "non-trading securities" and measured at fair value. Unrealised gains or losses on "non-trading securities' are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit and loss for that year. From 1 April 2005 onwards, the Group classifies and measures its investments in equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group classified and measured its investments in equity securities in accordance with the requirements of HKAS 39. Equity securities classified under other investments with carrying amount of HK$5,636,000 were reclassified to available-for-sale investments on 1 April 2005. In addition, the Group reassessed its club debentures in accordance with the requirements of HKFRS. Investment in club debentures, which was previously classified under other investments, were reclassified to intangible asset and other long term receivable with carrying amounts of HK$22,763,000 and HK$928,000, respectively.

Financial assets and financial liabilities other than equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

The adoption of the above transitional provisions in HKAS 39 has had no material impact on the results for the current year.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous years. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 April 2005. As a result, the Group's bills receivables with full recourse and trade receivables with insurance coverage factored to banks which were derecognised prior to 1 April 2005 have not been restated. As at 31 March 2006, the Group's bills receivables with full recourse and trade receivables with insurance coverage factored to banks have not been derecognised. Instead, the related borrowings of HK$126,049,000 have been recognised on the balance sheet date. This change has had no effect on the results for the current year.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings and leasehold interest in land under the construction in progress were included in property, plant and equipment and are stated at open market value and cost respectively. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straightline basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plants and equipment. In respect of the leasehold interest in land and under the construction in progress, the amount has been reclassified to prepaid lease payments under operating lease and applied retrospectively.

Investment Properties

In the current year, the Group has applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous years, investment properties under SSAP 13 were measured at open market values, with revaluation surplus or deficit credited or charged to asset revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the revaluation reserve was charged to the income statement.

Where a decrease had previously been charged to the income statement and revaluation increase subsequently arose, that increase was credited to the income statement to the extend of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 prospectively from 1 April 2005 onwards. The amount held in revaluation reserve at 1 April 2005 has been transferred to the Group's retained profits.

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HKAS Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflects the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Int 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated.

Summary of the effects of the changes in accounting policies

	2006	**2005**
	HK$'000	*HK$'000*
Decrease in release of negative goodwill to income statement	(1,092)	–
Decrease in amortisation of goodwill	12,354	–
Gain arising from changes in fair value of investment properties	4,188	–
Decrease in depreciation of property, plant and equipment	280	280
Increase in deferred tax relating to investment properties	(990)	–
Increase in amortisation of prepaid lease payments	(280)	(280)
Increase in profit for the year	14,460	–

Analysis of increase in profit for the year by line items presented according to their functions.

	2006	**2005**
	HK$'000	*HK$'000*
Increase in other income	3,096	–
Decrease in other expenses	12,354	–
Decrease in share of results of associates	–	(520)
(Increase) decrease in taxation	(990)	520
	14,460	–

The cumulative effect of the adoption of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

		Retrospective adjustments				Adjustments on 1 April 2005			
	As at 31 March 2005 (Originally stated)	HKAS 1	HKAS 17	Int 21	As at 31 March 2005 (restated)	HKAS 32 & 39	HKAS 40	HKFRS 3	As at 1 April 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items									
Property, plant and equipment	419,502	–	(27,797)	–	391,705	–	–	–	391,705
Prepaid lease payments	–	–	27,797	–	27,797	–	–	–	27,797
Negative goodwill	(20,399)	–	–	–	(20,399)	–	–	20,399	–
Other investments	29,327	–	–	–	29,327	(29,327)	–	–	–
Intangible assets	–	–	–	–	–	22,763	–	–	22,763
Available-for-sale investments	–	–	–	–	–	5,636	–	–	5,636
Other long term receivable	–	–	–	–	–	928	–	–	928
Deferred taxation	(19,581)	–	–	(2,245)	(21,826)	–	–	–	(21,826)
Total effect on assets and liabilities	408,849	–	–	(2,245)	406,604	–	–	20,399	427,003
Retained profits	685,941	–	–	–	685,941	–	11,487	41,243	738,671
Revaluation reserve	77,858	–	–	(2,245)	75,613	–	(11,487)	–	64,126
Goodwill reserve	(115,069)	–	–	–	(115,069)	–	–	(20,844)	(135,913)
Minority interests	–	396,654	–	–	396,654	–	–	–	396,654
Total effects on equity	648,730	396,654	–	(2,245)	1,043,139	–	–	20,399	1,063,538
Minority interests	396,654	(396,654)	–	–	–	–	–	–	–

There is no financial effects on the application of the new HKFRSs to the Group's equity on 1 April 2004.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-INT 4	Determining Whether an Arrangement Contains a Lease[2]
HK(IFRIC)-INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC)-INT 8	Scope of HKFRS 2[5]
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives[6]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.
5 Effective for annual periods beginning on or after 1 May 2006.
6 Effective for annual periods beginning on or after 1 June 2006.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on acquisition of a subsidiary or a jointly-controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or jointly-controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be transferred to retained profits at the time of disposal of the relevant subsidiary or at such time when a cash-generating unit to which the goodwill relates becomes impaired.

For previously capitalised goodwill arising on acquisitions after 1 April 2001, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on acquisition of a subsidiary is presented for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or jointly-controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary or a jointly-controlled entity (which is accounted for using proportionate consolidation) is presented separately in the balance sheet.

Additional interests in subsidiaries are measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries and any excess of the consideration over the net assets acquired are accounted for as goodwill.

For the purposes of impairment testing, goodwill arising from an acquisition of subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or a jointly-controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary or a jointly-controlled entity for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

As explained in Note 2 above, all negative goodwill as at 1 April 2005 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly-controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly-controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly-controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly-controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly-controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sales of fishes and other marine catches is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction can be measured reliably.

Shipping and agency service income is recognised when the shipping and agency services are rendered.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset's net carrying amount.

Rental income, including rentals invoiced in advance from properties held under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

Property, plant and equipment

Property, plant and equipment other than land and buildings and construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses. Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Land and building are depreciated over the term of the lease, or twenty-five years whichever is shorter, on a straight line basis. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. in the location and condition necessary for them to be capable of operating in the manner intended).

Depreciation is provided to write off the cost of items of property, plant and equipment other than land and building and construction in progress over their estimated useful lives, as follows:

	Rates	**Method**
Leasehold improvement	30%	reducing balance
Furniture and fixtures	30%	reducing balance
Office equipments	40%	reducing balance
Motor vehicles	40%	reducing balance
Plant and machinery	20% – 40%	reducing balance
Vessels	20%	straight-line

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Deferred charter hire

Deferred charter hire represents future charter hire expense for fishing vessels which have been prepaid or contractually agreed to be prepaid. They are amortised and charged to the consolidated income statement on a pro-rata basis over the hire period.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a valued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and conditions, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and estimated costs necessary to make the sale.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets with indefinite useful lives is tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Borrowing costs

All borrowing costs are expensed as incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into available-for-sale investments and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated or not classified as any of the other categories under HKAS 39. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loan receivables, other long term receivable, trade, bills and other receivables, trade receivables with insurance coverage, advances to suppliers, amounts due from associates, amount due from a jointly-controlled entity, loan to a jointly-controlled entity, pledged deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank as well as fixed deposits that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. They are stated net of bank overdrafts.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities including bank advances and borrowings, trade and other payables, amount due to an associate and amount due to joint venture partner of a jointly-controlled entity are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 April 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxation profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefits costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. Turnover and Segment Information

An analysis of the Group's turnover and contribution to profit from operations by principal activity and geographical market is as follows:

Business segments

For management purposes, the Group is currently organised into five operating divisions – frozen fish, fillets and portions, fishing, shipping services and others. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Frozen fish	–	trading of frozen seafood products
Fillets and portions	–	selling and processing of frozen seafood products
Fishing	–	fishing and the provision of fishing management services to fishing vessels
Shipping services	–	vessel charter-hire and trading of marine fuel
Others	–	trading and processing of frozen vegetables and other operations

Segment information about these businesses is presented below:

Year ended 31 March 2006

	Frozen fish	Fillets and portions	Fishing	Shipping services	Others	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External sales	2,921,000	2,537,169	620,172	60,934	17,722	–	6,156,997
Inter-segment sales	–	–	139,160	17,956	–	(157,116)	–
Total	2,921,000	2,537,169	759,332	78,890	17,722	(157,116)	6,156,997
RESULT							
Segment result	238,378	106,086	275,602	(37,909)	(22,329)	–	559,828
Unallocated corporate income							33,187
Unallocated corporate expenses							(31,239)
Gain on dilution of interest in a subsidiary							81,261
Loss on deemed disposal of interest in a subsidiary							(12,729)
Finance costs							(204,220)
Share of results of associates	(310)	(68)	–	–	–	–	(378)
Profit before taxation							425,710
Taxation							(14,286)
Profit before minority interests							411,424

Inter-segment sales are charged at cost plus a percentage profit mark up.

Year ended 31 March 2005

	Frozen fish	Fillets and portions	Fishing	Shipping services	Others	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External sales	2,729,929	2,320,141	191,884	31,312	25,010	–	5,298,276
Inter-segment sales	–	–	79,730	5,838	–	(85,568)	–
Total	2,729,929	2,320,141	271,614	37,150	25,010	(85,568)	5,298,276
RESULT							
Segment result	223,096	73,941	70,762	2,065	(10,091)	–	359,773
Unallocated corporate income							628
Unallocated corporate expenses							(14,468)
Loss on deemed disposal of interest in a subsidiary							(1,196)
Finance costs							(97,731)
Share of results of associates	293	(1,039)	–	–	–	–	(746)
Profit before taxation							246,260
Taxation							(3,265)
Profit before minority interests							242,995

Inter-segment sales are charged at cost plus a percentage profit mark up.

2006

BALANCE SHEET AT 31 MARCH 2006

	Frozen Fish	Fillets and portions	Fishing	Shipping services	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	2,303,779	2,434,715	1,194,887	71,062	118,702	6,123,145
Interests in associates	60	1,030	–	–	–	1,090
Unallocated corporate assets						408,088
Total assets						6,532,323
LIABILITIES						
Segment liabilities	132,164	585,599	82,174	5,199	2,828	807,964
Unallocated corporate liabilities						3,125,308
Total liabilities						3,933,272

OTHER INFORMATION FOR THE YEAR ENDED 31 MARCH 2006

	Frozen fish	Fillets and portions	Fishing	Shipping services	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	1,806	116,182	15,081	70,667	853	204,589
Depreciation of property, plant and equipment	2,492	36,495	655	8,307	3,756	51,705
Amortisation of prepaid lease payments	–	280	–	–	–	280
Amortisation of deferred charter hire	–	–	54,417	–	–	54,417
Allowance for amounts due from associates	–	574	–	–	–	574
Loss on deemed disposal of a subsidiary	12,729	–	–	–	–	12,729
Loss on disposal of property, plant and equipment	–	793	–	–	–	793
Gain on dilution of interest in a subsidiary	–	–	(81,261)	–	–	(81,261)
Impairment loss on goodwill	–	12,460	–	–	895	13,355
Impairment loss on property, plant and equipment	–	–	–	–	6,162	6,162
Inventories written off	–	764	–	–	5,329	6,093
Bad debts written off	–	3,627	–	–	–	3,627
Fair value changes in investment properties	–	–	–	–	(4,188)	(4,188)

2005

BALANCE SHEET AT 31 MARCH 2005

	Frozen fish	Fillets and portions	Fishing	Shipping services	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	2,224,342	1,591,762	401,801	16,186	120,605	4,354,696
Interests in associates	370	1,098	–	–	–	1,468
Unallocated corporate assets						326,106
Total assets						4,682,270
LIABILITIES						
Segment liabilities	334,463	409,574	85,990	601	2,906	833,534
Unallocated corporate liabilities						2,059,078
Total liabilities						2,892,612

OTHER INFORMATION FOR THE YEAR ENDED 31 MARCH 2005

	Frozen fish	Fillets and portions	Fishing	Shipping services	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	5,623	90,311	104	–	340	96,378
Depreciation of property, plant and equipment	2,013	21,958	12	74	4,092	28,149
Amortisation of goodwill	–	1,163	4,233	–	–	5,396
Amortisation of prepaid lease payments	–	280	–	–	–	280
Amortisation of deferred charter hire	–	–	16,566	–	–	16,566
Release of negative goodwill	(1,157)	–	–	–	–	(1,157)
Allowance for amounts due from associates	–	–	–	–	5,000	5,000
Loss on deemed disposal of a subsidiary	1,196	–	–	–	–	1,196
Loss on disposal of property, plant and equipment	132	–	–	–	1,762	1,894
Impairment loss on unlisted equity securities	–	200	–	–	–	200
Bad debts written off	–	911	–	–	–	911

Geographical segments

The Group's operations are located in the PRC, North America, Western Europe, Eastern Europe and East Asia.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	2006	**2005**
	HK$'000	*HK$'000*
PRC	3,069,442	2,811,822
North America	1,204,834	1,046,583
Western Europe	1,199,982	1,095,356
Eastern Europe	86,519	28,856
East Asia	500,870	256,689
Other	95,350	58,970
	6,156,997	5,298,276

The following is an analysis of the carrying amount of segment assets, and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Capital additions**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	4,525,549	3,434,944	81,749	81,696
North America	267,398	206,453	6,209	14,219
Western Europe	160,873	155,385	–	463
Eastern Europe	940,963	444,704	70,325	–
East Asia	221,364	102,080	45,677	–
Other	6,998	11,130	629	–
	6,123,145	4,354,696	204,589	96,378

5. Other Income

	2006	**2005**
	HK$'000	*HK$'000*
Other income comprises of:		
Gross rental from investment properties	3,590	2,863
Agency income	6,254	3,392
Revaluation increase on revaluation of land and buildings	–	257
Fair value changes on investment properties	4,188	–
Interest income	29,413	2,294
Exchange income, net	3,741	–
Release of negative goodwill	–	1,157
Sundry income	2,783	538
	49,969	10,501

6. Other Expenses

	2006	2005
	HK$'000	*HK$'000*
Other expenses comprises of:		
Allowance for amount due from an associate	574	5,000
Impairment loss on goodwill	13,355	–
Impairment loss on property, plant and equipment	6,162	–
Loss on disposal of property, plant and equipment	793	1,894
Revaluation decrease on revaluation of land and buildings	1,610	–
Amortisation of goodwill	–	5,396
Compensation on early termination of lease agreement	–	3,113
Inventories written off	6,093	–
Bad debts written off	3,627	911
Others	636	–
	32,850	16,314

7. Finance Costs

	2006	2005
	HK$'000	*HK$'000*
Interest on bank borrowings		
– wholly repayable within five years	199,710	94,108
– not wholly repayable within five years	4,234	2,339
Interest on advances from third parties	276	1,284
	204,220	97,731

8. Profit Before Taxation

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	4,565	2,758
Depreciation of property, plant and equipment	51,705	28,149
Amortisation of prepaid lease payments	280	280
Amortisation of deferred charter hire included in cost of sales	54,417	16,566
Operating lease rentals in respect of:		
– rented premises	4,341	6,122
– charter hire	139,571	69,938
Exchange loss, net	–	27
Impairment loss on unlisted equity securities	–	200
Cost of inventories included in cost of sales	4,722,799	4,490,595
Staff costs excluding directors remuneration	103,654	94,135
Crew wages	84,056	28,177
Retirement benefits scheme contributions (excluding directors)	1,075	966
Total staff costs	188,785	123,278
And after crediting:		
Net rental income after outgoings of HK$399,000 (2005: HK$246,000)	3,191	2,617

9. Directors' Emoluments

Year ended 31 March 2006

	Fees	Salaries and other benefits-in-kind -cash	Benefits-in-kind	Performance related incentive payment	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors						
Mr Ng Swee Hong	–	124	–	40	–	164
Mr Ng Joo Siang	–	2,038	1,014	400	88	3,540
Mdm Teh Hong Eng	–	1,305	1,014	320	–	2,639
Mr Ng Joo Kwee	–	2,129	324	400	87	2,940
Mr Ng Joo Puay, Frank	–	1,315	459	320	69	2,163
Ms Ng Puay Yee	–	1,267	–	320	69	1,656
Mr Cheng Nai Ming	–	1,855	–	400	87	2,342
Independent Non-Executive Directors						
Mr Lew V Robert	240	–	–	–	–	240
Mr Kwok Lam Kwong, Larry	240	–	–	–	–	240
Mr Yeh Man Chun, Kent	240	–	–	–	–	240
	720	10,033	2,811	2,200	400	16,164

Year ended 31 March 2005

	Fees	Salaries and other benefits–in-kind -cash	Benefits-in-kind	Performance related incentive payment	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors						
Mr Ng Swee Hong	–	122	–	40	–	162
Mr Ng Joo Siang	–	1,810	949	400	72	3,231
Mdm Teh Hong Eng	–	1,228	949	320	–	2,497
Mr Ng Joo Kwee	–	1,578	549	400	72	2,599
Mr Ng Joo Puay, Frank	–	1,244	398	320	58	2,020
Ms Ng Puay Yee	–	1,067	–	320	54	1,441
Mr Cheng Nai Ming	–	1,800	–	400	72	2,272
Non-Executive Directors						
Mr Lew V Robert	240	–	–	–	–	240
Mr Kwok Lam Kwong, Larry	240	–	–	–	–	240
Mr Yeh Man Chun, Kent	120	–	–	–	–	120
	600	8,849	2,845	2,200	328	14,822

None of the directors waived any emoluments during the year.

Performance related incentive payment is determined having regard to the performance of individuals and market trends.

Benefits-in-kind mainly represent the estimated monetary value of accommodation provided to certain directors of the Company.

Emoluments of the directors were within the following bands:

	2006 *No. of Directors*	**2005** *No. of Directors*
HK$nil to HK$1,000,000	4	4
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	2	3
HK$2,500,001 to HK$3,000,000	2	1
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
	10	10

The five highest paid individuals of the Group for the years ended 31 March 2006 and 31 March 2005 are all directors of the Company.

10. Taxation

	2006 *HK$'000*	**2005** *HK$'000* (restated)
The charge comprises:		
Profit for the year		
– Hong Kong	4,910	7,130
– other jurisdictions	7,297	606
Overprovision in prior year		
– Hong Kong	(1,292)	(477)
	10,915	7,259
Deferred taxation *(note 34)*		
– current year	3,371	(3,994)
Tax charge for the year	14,286	3,265

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

Taxation in other jurisdictions are calculated at the rate prevailing in the respective jurisdiction.

As a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and accordingly that portion of profit is not subject to Hong Kong Profits Tax.

The tax charge for the year can be reconciled to the profit before taxation as follows:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Profit before taxation	425,710	246,260
Tax at Hong Kong Profits Tax rate of 17.5%	74,499	43,096
Tax effect of expenses not deductible	43,707	10,848
Tax effect of income not taxable	(104,614)	(49,610)
Overprovision in respect of prior year	(1,292)	(477)
Tax effect of tax losses not recognised	2,868	815
Utilisation of tax losses previously not recognised	(5,524)	(4,681)
Tax effect of other deductible temporary differences not recognised	3,883	123
Effect of different tax rates of subsidiaries operating in other jurisdictions	(425)	312
Tax effects of share of results of associates	66	131
Others	1,118	2,708
Tax charge for the year	14,286	3,265

11. Dividend

	2006	2005
	HK$'000	*HK$'000*
Dividend:		
Final dividend of HK5.2 cents (2005: HK5.4 cents) per share	55,874	54,409

12. Earnings Per Share

The calculation of the basic and diluted earnings per share for the two years ended 31 March 2006 are based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Earnings for the purposes of calculation of basic and diluted earnings per share	183,058	163,228
Weighted average number of ordinary shares for the purposes of calculation of basic earnings per share	1,002,744,584	999,268,913
Effect of dilutive potential ordinary shares in respect of:		
– share options	1,117,205	2,950,694
– warrants	1,602,534	–
Weighted average number of ordinary shares for the purposes of calculation of diluted earnings per share	1,005,464,323	1,002,219,607

The following table summarise the impact on both basis and diluted earnings per share as a result of:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2006	2005	2006	2005
	HK cents	*HK cents*	*HK cents*	*HK cents*
Reported figures before adjustments	16.8	16.3	16.7	16.3
Adjustments arising from changes in accounting policies *(see note 2)*	1.5	–	1.5	–
Restated	18.3	16.3	18.2	16.3

13. Property, Plant and Equipment

	Land and buildings	Leasehold improve-ments	Furniture and fixtures	Office equipment	Motor vehicles	Plant and machinery	Vessels	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION									
As at 1 April 2004	223,167	19,732	17,462	36,593	23,404	109,694	47,044	21,823	498,919
Effect on Adoption of HKAS 17	(10,937)	–	–	–	–	–	–	(17,533)	(28,470)
As at 1 April 2004 as restated	212,230	19,732	17,462	36,593	23,404	109,694	47,044	4,290	470,449
Additions	50,462	9,585	332	4,794	3,448	15,990	–	11,764	96,375
Acquisition of a jointly-controlled entity	–	–	3	–	–	–	–	–	3
Disposals	–	–	(1,993)	(182)	(1,431)	(3,328)	–	(2,006)	(8,940)
Transfer to investment properties	(21,000)	–	–	–	–	–	–	–	(21,000)
Transfer from prepaid lease payments	–	–	–	–	–	–	–	393	393
Transfer	–	2,276	–	67	–	(188)	–	(2,155)	–
Surplus on revaluation increase	39,618	–	–	–	–	–	–	–	39,618
As at 31 March 2005	281,310	31,593	15,804	41,272	25,421	122,168	47,044	12,286	576,898
Additions	30,188	10,141	1,365	10,685	3,507	12,050	70,200	23,082	161,218
Additions arising from consolidated of a former jointly-controlled entity	–	–	788	–	461	–	–	–	1,249
Acquisition of subsidiaries	32,903	–	736	5,121	767	1,966	–	–	41,493
Acquisition of a jointly-controlled entity	–	–	118	42	178	291	–	–	629
Disposals	–	(13)	(26)	(484)	(63)	(958)	–	(806)	(2,350)
Transfer from investment properties	16,540	–	–	–	–	–	–	–	16,540
Transfer from prepaid lease payments	–	–	–	–	–	–	–	427	427
Transfer	–	1,460	–	(533)	–	3,970	(2,233)	(2,664)	–
Surplus on revaluation increase	9,650	–	–	–	–	–	–	–	9,650
Exchange realignment	–	260	(105)	238	207	1,375	–	282	2,257
As at 31 March 2006	370,591	43,441	18,680	56,341	30,478	140,862	115,011	32,607	808,011
Comprising:									
At cost	–	31,593	15,804	41,272	25,421	122,168	47,044	12,286	295,588
At valuation – 2005	281,310	–	–	–	–	–	–	–	281,310
	281,310	31,593	15,804	41,272	25,421	122,168	47,044	12,286	576,898
At cost	–	43,441	18,680	56,341	30,478	140,862	115,011	32,607	437,420
At valuation – 2006	370,591	–	–	–	–	–	–	–	370,591
	370,591	43,441	18,680	56,341	30,478	140,862	115,011	32,607	808,011

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Vessels HK$'000	Construction in progress HK$'000	Total HK$'000
DEPRECIATION AND IMPAIRMENT									
As at 1 April 2004	–	11,984	14,413	24,272	18,040	55,051	40,200	–	163,960
Provided for the year	2,985	3,838	1,011	5,324	2,901	12,016	74	–	28,149
Eliminated on disposals	–	–	(1,783)	(130)	(683)	(1,335)	–	–	(3,931)
Transfer	–	98	–	16	–	(114)	–	–	–
Transfer to investment properties	(128)	–	–	–	–	–	–	–	(128)
Adjustment on revaluation	(2,857)	–	–	–	–	–	–	–	(2,857)
As at 31 March 2005	–	15,920	13,641	29,482	20,258	65,618	40,274	–	185,193
Provided for the year	14,105	4,140	1,143	6,971	3,281	13,895	8,170	–	51,705
Additions arising from consolidated of a former jointly-controlled entity	–	–	36	–	8	–	–	–	44
Eliminated on disposals	–	(10)	–	(111)	(1)	(482)	–	–	(604)
Impairment loss recognised	–	–	–	–	–	6,162	–	–	6,162
Transfer	–	–	–	(988)	–	3,075	(2,087)	–	–
Adjustment on revaluation	(14,105)	–	–	–	–	–	–	–	(14,105)
Exchange realignment	–	152	(10)	212	195	862	–	–	1,411
As at 31 March 2006	–	20,202	14,810	35,566	23,741	89,130	46,357	–	229,806
CARRYING VALUES									
As at 31 March 2006	370,591	23,239	3,870	20,775	6,737	51,732	68,654	32,607	578,205
As at 31 March 2005	281,310	15,673	2,163	11,790	5,163	56,550	6,770	12,286	391,705

The net book value of land and buildings shown above comprises:

	2006 HK$'000	**2005** HK$'000
Land in Hong Kong held under long leases	286,068	240,267
Land outside Hong Kong held under medium-term leases	84,523	41,043
	370,591	281,310

The leasehold land and buildings of the Group were revalued at 31 March 2006 on an open market value basis by BMI Appraisals Limited, an independent property valuer. The valuation gave rise to a net revaluation increase of HK$23,755,000 (2005: HK$42,475,000) in which HK$25,365,000 (2005: HK$42,218,000) have been credited to revaluation reserve and HK$1,610,000 have been charged to income statement (2005: HK$257,000 have been credited to income statement).

If leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	HK$'000
Cost	328,867
Accumulated depreciation	(55,686)
Carrying value	
At 31 March 2006	273,181
At 31 March 2005	218,312

During the year, the Group carried out a review of the recoverable amounts of its vegetable processing plant and equipment used in the Group's other business segment upon the Group's scale down of cultivation and processing of vegetables to concentrate on the sourcing and distribution of vegetable products. The review led to the recognition of impairment loss of HK$6,612,000 that has been recognised in the income statement.

During the period, the management reassessed and revised the useful lives of its leasehold land and buildings. The change in estimate has been applied prospectively and the effect of this change resulted in additional depreciation charge of approximately HK$8,961,000 during the year.

14. Investment Properties

	2006	**2005**
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of the year	90,700	55,900
Acquisition of a jointly-controlled entity	30,775	–
Additions	1,212	–
Disposals	(5,500)	–
Increase in fair value recognised to income statement	4,188	–
Revaluation increase arising on revaluation	–	13,928
Transferred (to) from property, plant and equipment	(16,540)	20,872
At end of the year	104,835	90,700

(a) The Group's property interests of approximately HK$104,835,000 (2005: HK$90,700,000) which are held under operating leases to earn rentals or capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

(b) The carrying amount of investment properties includes land situated in Hong Kong and outside Hong Kong as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Land in Hong Kong held under long leases	30,000	52,000
Land outside Hong Kong held under medium-term leases	8,100	6,900
Land outside Hong Kong held under long leases	66,735	31,800
	104,835	90,700

(c) The investment properties of the Group were revalued at 31 March 2006 on an open market value basis by BMI Appraisals Limited, an independent property valuer. The revaluation gave rise to a revaluation increase of HK$4,188,000 which has been credited to income statement (2005: revaluation increase of HK$13,928,000 have been credited to revaluation reserve).

15. Prepaid lease payments

	2006	**2005**
	HK$'000	*HK$'000*
The Group's prepaid lease payment comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	28,746	27,797
Analysed for reporting purposes as:		
Non-current asset	28,039	27,124
Current asset (include in trade, bills and other receivables in note 24)	707	673
	28,746	27,797

16. Goodwill

	HK$'000
GROSS AMOUNT	
At 1 April 2004	17,435
Arising on the acquisition of a jointly-controlled entity *(note 40)*	105,293
Arising on the acquisition of additional interest in a subsidiary	3,535
At 31 March 2005	126,263
Eliminated of accumulated amortisation upon the application of HKFRS 3	(6,074)
Arising on the acquisition of subsidiaries *(note 38)*	12,460
Arising on the acquisition of a jointly-controlled entity *(note 40)*	497
Arising on the acquisition of additional interest in a subsidiary	9,709
At 31 March 2006	142,855
AMORTISATION	
At 1 April 2004	(678)
Provided for the year	(5,396)
At 31 March 2005	(6,074)
Elimination of accumulated amortisation upon the application of HKFRS 3	6,074
At 31 March 2006	–
IMPAIRMENT	
Impairment loss recognised in the year ended 31 March 2006 and balance at 31 March 2006	(13,355)
CARRYING AMOUNTS	
At 31 March 2006	129,500
At 31 March 2005	120,189

Until 31 March 2005, the goodwill is amortised on a straight-line basis ranging from 10 to 20 years.

During the year, the Group purchased shares of its listed subsidiary from the market and also purchased and subsequently exercised the warrants of its listed subsidiary. The purchase of shares and the exercise of warrants resulted in goodwill arising on acquisition of additional interest in a subsidiary of HK$9,709,000. The minority shareholders also exercised the warrants of the listed subsidiary which resulted in a loss on deemed disposal of interest in a subsidiary of HK$12,729,000 and had been charged to the consolidated income statement.

The Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill with indefinite useful lives have been allocated to three cash generating units ("CGUs") before impairment. The carrying amounts of goodwill after impairment as at 31 March 2006 allocated to the units as follows:

	HK$'000
Frozen fish – Pacific Andes (Holdings) Limited	13,245
Fillets and portions – National Fish and Seafood Inc.	15,594
Fishing – China Fisheries International Limited	100,661
	129,500

The recoverable amounts of these CGUs have been determined based on a value in use calculation. The CGUs operates in a related and similar business environment. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and the expected changes to selling prices and direct costs. Management estimates discount rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecast. Changes in selling prices and direct costs are based on past practices and expectations of the future changes in the market.

That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rates ranging from 6.97% to 7.38%. This discount rates are estimated from the rate implicit in the weighted average cost of capital of a similar investment with similar risk. Key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of goodwill to exceed the aggregate recoverable amount.

During the year ended 31 March 2006, management of the Group conducted impairment review on the goodwill which is based on the cash flow forecast derived from the most recent financial budgets for the next five years. Subsequent to the impairment review, the directors determined that there are impairments on the goodwill of certain CGUs, and decided to impair such goodwill.

Accordingly, the Group recognised impairment losses of HK$12,460,000 and HK$895,000 in relation to goodwill allocated to the CGU of fillets and portions and others – rental, respectively. The above impairment is recognised in the segment of fillets and portions and others, respectively. The impairment losses are determined based on the future profitability and cash flows of the respective operations. The CGU of others – rental was fully written off as at year end.

As mentioned in note 38, the Group acquired a subsidiary in Japan which resulted in a goodwill of HK$12,460,000. This goodwill was allocated to the fillets and portions segment. As at year end, the directors performed an annual impairment test on this investment. Due to the high fixed costs and the unfavourable future profitability of the subsidiary, the directors decided to write off the whole amount of goodwill.

17. Negative Goodwill

	HK$'000
GROSS AMOUNT	
At 1 April 2004	(3,444)
Arising on the acquisition of additional interest in a subsidiary	(18,390)
At 31 March 2005	(21,834)
RELEASED TO THE INCOME STATEMENT	
At 1 April 2004	278
Released during the year	1,157
At 31 March 2005	1,435
CARRYING AMOUNTS	
At 31 March 2005	(20,399)
Derecognised upon the application of HKFRS 3	20,399
At 1 April 2005	–

The addition of HK$18,390,000 in negative goodwill in 2005 arose on the Group's acquisition of an additional 7.58% of equity interest in Pacific Andes (Holdings) Limited ("PAH").

Until 31 March 2005, the negative goodwill is released to income statement on a straight-line basis of 20 years, representing the estimated average useful life of the depreciable assets acquired.

18. Deferred Charter Hire

	2006 HK$'000	**2005** HK$'000
Deferred charter hire expenses	804,960	214,928
Less: accumulated amortisation	(92,430)	(16,566)
	712,530	198,362
Included as current assets in trade, bills and other receivables *(note 24)*	(107,640)	(22,670)
Included as non-current assets	604,890	175,692
Cost:		
At beginning of year	214,928	–
Consolidation of a former jointly-controlled entity	200,032	–
Additions during the year	390,000	–
Acquisition of a jointly-controlled entity	–	214,928
At end of year	804,960	214,928
Accumulated amortisation:		
At beginning of year	16,566	–
Consolidation of a former jointly-controlled entity	21,447	–
Amortisation during the year	54,417	16,566
At end of year	92,430	16,566

A subsidiary, China Fisheries International Limited ("CFIL"), entered into vessel operating agreements ("VOA") with two companies (2005: one company) to prepay fixed charter hire for 14 vessels (2005: 7 vessels) together with the allocated fish quotas for a period of 10 years. To secure the prepayments and to ensure that the counterparties comply with their obligations under the VOA, the counterparties executed the following documents in favour of CFIL:

(i) a charge of all the issued shares of the counterparties (the "Charges");

(ii) a debenture over all the present and future assets of the counterparties (the "Debentures"); and

(iii) an entrusted management agreement to vest upon the nominee of CFIL, the management and control of the counterparties in respect of and limited to the performance and obligations of the VOA.

If an event of default occurs, pursuant to the terms of the Charges and the Debentures, CFIL shall be entitled to exercise its rights over the security created by those security documents. Such events of default include, among others:

(i) any default by the counterparties in the due performance of any undertaking, condition or obligation to be performed and observed in the VOA, the Charges, the Debentures or any other instruments or agreements entered for the benefit of CFIL; and

(ii) any failure of the counterparties to pay any sum payable from time to time to CFIL on the due date whether in connection with the VOA, the Charges, the Debentures or any other security granted in favour of CFIL by the counterparties.

19. Interests in Associates

	2006	**2005**
	HK$'000	*HK$'000*
Cost of investments – unlisted	1,920	1,920
Share of post-acquisition results	(830)	(452)
	1,090	1,468

Particulars of the Group's principal associates as at 31 March 2006 are set out in note 51.

20. Loan to a Jointly-controlled Entity

Loan to a jointly-controlled entity is unsecured, carries interest at 5% per annum and repayable in March 2009. The directors consider the amount of the loan to a jointly-controlled entity approximates its fair value.

21. Loan Receivables

Loans to third parties are unsecured, bear interest at 29.2% per annum and are repayable on 31 December 2007. The directors consider the amount of the loans to third parties approximates its fair value.

22. Intangible Assets/Other Long Term Receivable/Other Investments

	2006	2005
	HK$'000	*HK$'000*
Intangible assets – club debentures	22,763	–
Other long term receivable – club debentures	928	–
Other equity securities listed overseas	–	5,636
Club debentures	–	23,691
	23,691	29,327
Market value of listed securities	–	5,636

Upon adoption of HKAS 32 and HKAS 39, an amount of HK$22,763,000 and HK$928,000 classified as other investments in 2005 is now reclassified to intangible assets and other long term receivable, respectively.

Intangible assets are not amortised because their useful lives are determined to be infinite. During the year ended 31 March 2006, the directors determined that there is no impairment to the intangible assets with reference to the market value of the intangible assets.

23. Inventories

	2006	2005
	HK$'000	*HK$'000*
Inventories, at cost, consists of the following:		
Frozen fish	1,510,241	969,279
Fillets and portions	434,864	405,145
Fuel	1,767	4,585
Seeds and vegetables	925	7,440
Packing materials	3,668	17,495
	1,951,465	1,403,944

24. Trade, Bills and Other Receivables

	2006	2005
	HK$'000	*HK$'000*
Trade receivables	1,355,559	753,643
Bills receivables	107,618	123,081
Current portion of prepaid lease payments *(note 15)*	707	673
Current portion of deferred charter hire *(note 18)*	107,640	22,670
Other receivables	758,157	801,814
	2,329,681	1,701,881

Included in other receivables are amounts of HK$491,648,000 (2005: HK$762,447,000) in respect of prepayments made for the purchase of frozen fish inventories. These amounts are unsecured and interest free.

The Group maintains a defined credit policy. For sales of goods, the Group allows an average credit period of 30 days to 120 days to its trade customers. The aged analysis of trade receivables and bills receivables at the balance sheet date is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Less than 30 days	518,420	594,241
31 – 60 days	367,987	190,493
61 – 90 days	384,081	82,518
91 – 120 days	192,689	7,465
Over 120 days	–	2,007
	1,463,177	876,724

The fair value of the Group's trade, bills and other receivables approximates to the corresponding carrying amount.

Included in the bills receivables are amounts of HK$107,210,000 (2005: HK$Nil) in respect of bills discounted to certain banks under the receivable discounting advance facilities.

25. Trade Receivables with Insurance Coverage

Included in the trade receivables with insurance coverage are discounted trade receivables of HK$231,858,000 (2005: HK$280,707,000) and factored trade receivable of HK$21,035,000 (2005: HK$Nil) which have been discounted and factored to certain banks under the receivable discounting and factoring advance facilities. The bank advances drawn on discounted trade receivable with insurance coverage and discounted bills carried an average effective interest rate of approximately 7.38% (2005: 4.96%) per annum and are repayable within one year.

The aged analysis of the trade receivable with insurance coverage at balance sheet date is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Less than 30 days	168,711	178,864
31 – 60 days	62,710	115,066
61 – 90 days	20,793	16,547
91 – 120 days	524	2,155
Over 120 days	155	1,791
	252,893	314,423

The directors consider the trade receivables with insurance coverage and the bank advances drawn on discounted trade receivables with insurance coverage and discounted bills approximate their fair values.

26. Trade Receivables from Associates and Amounts due from/to Associates

The amounts due from/to associates are unsecured, interest-free, repayable on demand and the directors expect to recover these amounts within 12 months from the balance sheet date.

For trade receivables from associates on sales of goods, the Group allows an average credit period of 30 days to 60 days. The age of trade receivable from associates at balance sheet date are all less than 30 days for both years.

The directors consider the trade receivables from associates and the amounts due from/to associates approximate to their fair values.

27. Advances to Suppliers

The Group's advances to suppliers were unsecured and repayable on demand within one year. In 2005, except for an amount of HK$15,627,000 which was carrying interest at 10% per annum and compound monthly, the remaining advances were interest free.

28. Amount due from a Jointly-controlled Entity

The amount due from a jointly-controlled entity is unsecured, interest-free and is repayable within one year. The directors consider the amount due from a jointly-controlled entity approximate its fair value.

The details of the jointly-controlled entity acquired during the year are as follows:

Name of jointly-controlled entity	Principal activities/ Country of incorporation/ Place of business	Effective equity interest held by group 2006	2005
Able Team Investments Limited ("Able Team")	Property holding/Hong Kong/ Russia	33.3%	–
China Fisheries International Limited ("CFIL")	Operation of fishing vessels and sales of fish and other marine catches/ Samoa/Worldwide	– *(note a)*	24%

Notes:

(a) On 30 June 2005, CFIL were restructured in an exercise where a new holding company China Fishery Group Limited ("China Fishery") was set up to acquired the entire share capital of CFIL and China Fishery was subsequently listed on The Singapore Exchange Securities Trading Limited. The corporate exercises involved the cancellation of the shareholders' agreement governing the joint control of CFIL. Upon termination of the joint control and the restructuring exercise of CFIL, the Group controlled China Fishery.

Effective from 1 July 2005, the Group consolidated the financial statements of China Fishery and its subsidiaries into the Group's financial statements. All revenue, expenses, assets and liabilities of China Fishery and its subsidiaries are included in the Group's financial statements.

Upon the listing of China Fishery with new shares issued to the public on 24 January 2006, the Group's beneficial interest in the issued shares of China Fishery was diluted and resulted in a gain on dilution of interest of HK$81,261,000 which has been recognised in the consolidated income statement.

(b) The Group incorporated a jointly-controlled entity with 33.3% equity interest in Able Team during the year. The following amounts are included in the financial statements of the Group as a result of proportionate consolidation of the jointly-controlled entity, Able Team.

	HK$'000
Non-current assets	32,124
Current assets	6,762
Current liabilities	(6,142)
Non-current liabilities	(16,575)
Net assets	16,169
Turnover	4,238
Cost of sales and operating expenses	(2,854)
Profit before taxation	1,384
Taxation	(322)
Profit for the year	1,062

(c) As mentioned in note (a) above, CFIL became a subsidiary of the Company on 30 June 2005. The following amounts of assets and liabilities of CFIL are included in the financial statements of the Group as at 30 June 2005, the date in which CFIL became a subsidiary of the Company as at 31 March 2005 as a result of proportionate consolidation of the jointly-controlled entity. The results of CFIL have been proportionately accounted for since 12 July 2004, the effective date of acquisition of joint control, and cease on 30 June 2005, the effective date CFIL became a subsidiary of the Company.

	2006	**2005**
	HK$'000	*HK$'000*
Non-current assets	158,779	175,780
Current assets	154,152	102,762
Current liabilities	(26,900)	(131,110)
Non-current liabilities	(150,072)	–
Net assets	135,959	147,432
Turnover	88,864	271,614
Cost of sales and operating expenses	(65,771)	(190,019)
Profit before taxation	23,093	81,595
Taxation	–	–
Profit for the year	23,093	81,595

29. Pledged Deposits

Deposits pledged to a bank comprised proceeds from customers on export invoices discounted to secure discounting advances drawn on trade receivables with insurance coverage granted to the Group. The interest rates on the deposits ranged from 0.25% to 2.75% (2005: 0.50% to 2.25%) per annum.

The directors considered that the pledged deposits approximates its fair value.

30. Bank balances and cash

Bank balances and cash comprises cash held by the Group. The carrying amounts of these assets approximate their fair values.

The interest rates on cash placed with financial institutions ranged from 0.25% to 2.75% (2005: 0.50% to 2.25%) per annum.

31. Trade and Other Payables

Included in trade and other payables are trade payables of HK$226,405,000 (2005: HK$347,187,000). The age analysis of trade payables at the balance sheet date is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Less than 30 days	107,980	263,015
31 – 60 days	19,859	84,098
61 – 90 days	66,465	74
Over 90 days	32,101	–
	226,405	347,187

Included in other payables as at 31 March 2005 were advances from third parties of HK$16,790,000 which carried interest at the average effective rate of approximately 4.96% per annum and were secured by inventories of HK$22,386,000.

32. Bank Borrowings

	2006	**2005**
	HK$'000	*HK$'000*
Bank borrowings comprise:		
Inventory loans	530,863	466,713
Trust receipt and short term bank loans	2,420,266	1,442,022
Other term loans	11,662	14,394
Mortgage loans	83,757	97,234
Bank overdrafts	27,296	9,107
	3,073,844	2,029,470
Analysed as:		
Secured	700,924	563,947
Unsecured	2,372,920	1,465,523
	3,073,844	2,029,470

	2006	2005
	HK$'000	*HK$'000*
The maturity of bank borrowings is as follows:		
Within one year	2,865,340	1,936,607
In the second year	149,001	21,978
In the third year	12,662	12,533
In the fourth year	13,034	12,720
In the fifth year	13,449	12,906
Over five years	20,358	32,726
	3,073,844	2,029,470
Amount due within one year shown under current liabilities	(2,865,340)	(1,936,607)
Amount due after one year	208,504	92,863

Bank borrowings carried variable interest at the average effective rate of approximately 7.38% (2005: 4.96%) per annum.

The fair value of the Group's borrowings which was approximate to the carrying amount was estimated by discounting their future cash flows at prevailing market rate as at the balance sheet date.

33. Amount due to a Joint Venture Partner of a Jointly-controlled Entity

The amount is unsecured, bears interest at 5% per annum and repayable in March 2009. The directors consider the amount due to joint venture partner of a jointly-controlled entity approximates its fair value.

34. Deferred Taxation

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Revaluation of properties	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004	3,001	16,057	(3,108)	15,950
Charge (credit) to income statement for the year	367	77	(4,438)	(3,994)
Charge to revaluation reserve	–	9,870	–	9,870
At 31 March 2005, as restated	3,368	26,004	(7,546)	21,826
Charge (credit) to income statement for the year	3,120	990	(739)	3,371
Charge to revaluation reserve	–	1,309	–	1,309
Exchange differences	(16)	–	–	(16)
At 31 March 2006	6,472	28,303	(8,285)	26,490

At the balance sheet date, the Group has unutilised estimated tax losses of HK$125,145,000 (2005: HK$143,245,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$47,344,000 (2005: HK$43,053,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$77,801,000 (2005: HK$100,192,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are loses of HK$22,966,000 (2005: HK$23,734,000) that will gradually expire until 2011. During the year, unutilised tax losses of HK$7,215,000 expired. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK$27,052,000 (2005: HK$4,863,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will available against which the deductible temporary differences can be utilised.

35. Share Capital

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 March 2005 and 31 March 2006	2,000,000,000	200,000
Issued and fully paid:		
At 31 March 2004	998,821,338	99,882
Exercise of share options	600,000	60
Exercise of warrants	4,219	–
At 31 March 2005	999,425,557	99,942
Exercise of share options	4,000,000	400
Exercise of warrants	12,434,127	1,244
At 31 March 2006	1,015,859,684	101,586

36. Share Option Scheme

Under the terms of the share option scheme (the "Scheme") which was adopted on 9 September 1994 and expired on 8 September 2004, the Board of Directors (the "Board") may grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company, at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options. The purpose of the share option scheme is to provide incentive to the directors and employees of the Group. The exercisable period will be determined by the Board and in any event not exceeding a period of 5 years commencing on, and two years after, the date of acceptance by the grantee and expiring on the last date of such period or 8 September 2004 whichever is earlier. The grantee is required to pay non refundable consideration of HK$1.00 upon acceptance of the offer. The maximum entitlement of each participant shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

At 31 March 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 4,000,000, representing 0.4% of the shares of the Company (excluding any shares issued pursuant to the Scheme) in issue at that date. The number of shares issuable under the Scheme is not to exceed 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the Scheme.

As the Scheme no longer complies with the amended Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") governing the share option schemes, no further option can be granted under the Scheme from 1 September 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the Scheme will continue to be exercisable in accordance with the scheme.

At 31 March 2006, the following options to subscribe for shares were outstanding under the Company's share option scheme:

2006

Category 1: Directors

				Number of share options held		
Exercisable period	Vesting period	Date of grant	Subscription price per share *HK$*	Outstanding at 1 April 2005	Exercised during the year	Outstanding at 31 March 2006
21 August 2000 – 20 August 2005	21.2.2000 to 20.8.2000	21.2.2000	0.3336	4,000,000	(4,000,000)	–

Category 2: Employees

There are no share options outstanding for employees during the year.

Details of the options exercised are as follows:

Date	Number of options	Closing price of Company's shares
4 August 2005	2,000,000	1.36
19 August 2005	2,000,000	1.41
	4,000,000	

No share option was granted by the Company during the year ended 31 March 2006.

2005

Category 1: Directors

				Number of share options held		
Exercisable period	Vesting period	Date of grant	Subscription price per share *HK$*	Outstanding at 1 April 2004	Exercised during the year	Outstanding at 31 March 2005
11 July 1999 – 10 July 2004	10.7.1997 to 11.7.1999	10.7.1997	1.1168	600,000	(600,000)	–
21 August 2000 – 20 August 2005	21.2.2000 to 20.8.2000	21.2.2000	0.3336	4,000,000	–	4,000,000
Total number of share option held by directors				4,600,000	(600,000)	4,000,000

The share options were exercised on 2 July 2004. The closing price of the Company's shares on the date on which the share options were exercised was HK$1.29.

Category 2: Employees

There are no share options outstanding for employees during the year.

No share option was granted by the Company during the year ended 31 March 2005.

On 9 September 2004, the Company adopted a new share option scheme (the "New Scheme"). The New Scheme is to provide incentives to any participant to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Under the terms of the New Scheme, which was adopted on 9 September 2004 and will expired on 8 September 2014, the Board may grant options to any individual being an employee, officer, agent, consultant or representative of the Company or any other members of the Group (including any executive, non-executive and independent non-executive director of any member of the Group) based on his work experience, knowledge in the industry and other relevant factors to subscribe for the shares in the Company (the "Shares"). The subscription price for the Shares under the options to be granted under the New Scheme will be at least the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the option, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the Shares.

The exercisable period will be determined by the Board and in any event must not be more than 10 years from the date of the grant of the option. The total number of Shares issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted under the New Scheme and any other share option scheme(s) of any member of the Group in any 12-month period immediately preceding any proposed date of the grant of options to each participant must not exceed 1 per cent. of the number of shares in issue as at the proposed grant date.

No option has been granted since the adoption of the New Scheme.

37. Warrants

	2006 Warrants Warrants with subscription price of HK$1.40 Number	*HK$'000*
Issue of warrants	199,884,267	279,838
Exercised during the year	(4,219)	(6)
Balance in issue at 31 March 2005	199,880,048	279,832
Exercised during the year	(12,434,127)	(17,408)
Balance in issue at 31 March 2006	187,445,921	262,424

On 1 February 2005, a bonus issue of 199,884,267 warrants ("2006 Warrants") was made on the basis of one 2006 Warrants for every five existing ordinary shares then held on 1 February 2005.

Each 2006 Warrants entitles the registered holder to subscribe in cash at an initial subscription price of HK$1.40, subject to adjustment, for one ordinary share of HK$0.10 each in the Company, at any time from 1 February 2005 to 31 July 2006 (both dates inclusive).

During the year, 12,434,127 (2005: 4,219) 2006 Warrants were exercised to subscribe for ordinary shares. At 31 March 2006, the Company had outstanding 187,445,921 (2005: 199,880,048) 2006 Warrants. Exercise in full of such 2006 Warrants would result in the issue of 187,445,921 (2005: 199,880,048) additional shares.

38. Acquisition of Subsidiaries

On 22 April 2005, the Group entered into an agreement to subscribe 60% of shares in Kyoshoku Co. Ltd ("Kyoshoku"), a company incorporated in Japan for cash consideration of 400 million yen (approximately HK$29,292,000). Kyoshoku and its subsidiary are principally engaged in processing, selling and distribution of seafood products in Japan. This transaction has been accounted for using the purchase method of accounting.

The Group also acquired 100% of shares of PT Andes Argo Investama ("PT Andes"), a dormant subsidiary in Indonesia at a cost of 500 million Indonesian Rupiah (approximately HK$427,000).

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Carrying amount before combination	**Adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	46,796	(5,303)	41,493
Inventories	40,836	(1,910)	38,926
Trade and other receivables	32,168	(9,915)	22,253
Bank balances and cash	21,671	–	21,671
Trade and other payables	(31,718)	(7,567)	(39,285)
Bank loans	(56,312)	–	(56,312)
			28,746
Goodwill arising on consolidation			12,460
Minority interests			(11,487)
Total consideration, satisfied by cash			29,719
Net cash outflow arising on acquisition:			
Cash consideration			(29,719)
Bank balances and cash acquired			21,671
			(8,048)

Kyoshoku and PT Andes, contributed HK$254 million revenue and a loss of HK$52 million to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

39. Consolidation of a former Jointly-controlled Entity

As mentioned in note 28, CFIL became the subsidiary of the Company during the year pursuant to the restructuring of CFIL and in conjunction with the Initial Public Offering of China Fishery. The net assets consolidated in the financial statement of the Group and the minority interest arising, are as follow:

	HK$'000
Property, plant and equipment	1,205
Deferred charter hire	178,585
Trade, bills and other receivables	35,558
Amount due from a jointly-controlled entity	18,695
Bank balances and cash	78,888
Trade and other payables	(26,900)
Bank borrowings	(150,072)
Minority interests	(135,959)
Total consideration	–
Cash inflow arising on acquisition:	
Bank balances and cash	78,888

40. Acquisition of a Joint-controlled Entity

On 13 October 2005, the Group, through Able Team acquired an effective interest of 33.3% in the issued share capital of Central Department Store LLC. In 2005, the Group acquired 51.9% interest in the share capital of CFIL, the Group's interest in CFIL is 24% effectively. The goodwill and net cash outflow arising from acquisition of interest in jointly-controlled entity has been determined as follows:

	Fair Value	
	2006	**2005**
	HK$'000	*HK$'000*
Net assets acquired:		
Investment properties	30,775	–
Property, plant and equipment	629	3
Deferred charter hire	–	214,928
Trade, bills and other receivables	806	46,560
Bank balances and cash	350	30,056
Trade and other payables	(1,025)	(225,244)
Amount due to a jointly-controlled entity	–	(463)
	31,535	65,840
Goodwill arising on consolidation	497	105,293
Total consideration, satisfied by cash	32,032	171,133
Net cash outflow arising on acquisition:		
Cash consideration	(32,032)	(171,133)
Bank balances and cash acquired	350	30,056
	(31,682)	(141,077)

41. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those funds of the Group under the control of trustees. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes.

42. Operating Lease Arrangements

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	6,006	8,982
In the second to fifth years inclusive	13,100	16,391
After five years	27,372	29,566
	46,478	54,939

Operating lease payments represent rentals payable by the Group for certain of its office premises, processing plants and farmland. Leases are negotiated for terms ranging from one to thirty years.

The Group as lessor

Property rental income earned during the year was HK$3,590,000 (2005: HK$2,863,000). Certain of the Group's investment properties held have committed tenants ranging from one to seven years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties which fall due as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,981	2,767
In the second to fifth years inclusive	560	1,311
After five years	744	826
	3,285	4,904

43. Capital Commitments

	2006 HK$'000	2005 HK$'000
At the balance sheet date, the Group had commitment for capital expenditure in respect of the acquisition of property, plant and equipment as follows:		
Contracted for but not provided in the financial statements	27,538	19,934
Authorised but not contracted for	–	14,838

44. Contingent Liabilities

(a) Feoso (Singapore) Private Limited ("Feoso") has issued a writ of summons against the Company, two employees (the "Employees") of the Company and Ever Bright Energy Co. Ltd. ("Ever Bright") on 21 June 2005 in relation to a dispute over supply of oil products by Ever Bright to Feoso in November 1999. The amount claimed in the writ approximates US$3,709,000 (approximately HK$28,930,000) plus interest, costs and other ancillary relief. Ever Bright was formerly an indirectly wholly-owned subsidiary of PAH, a subsidiary of the Company with its shares listed on The Singapore Exchange Securities Trading Limited. The Group disposed its interest in Ever Bright on 31 January 2000.

The Company's legal advisors are still at the preliminary stage of investigating the claim and in the process of instructing counsel to advise on the matter. However, their preliminary view is that the Company has a good defence and the case is likely to be resolved in the Company's favour.

In the opinion of the directors, the Company has valid grounds to defend the claim and as such, no provision for this claim has been made in the financial statements.

(b) At 31 March 2005, the Group had contingent liabilities in respect of bills discounted with recourse amounting to HK$154,686,000.

45. Pledge of Assets

At 31 March 2006, the Group has pledged land and buildings and investment properties with aggregate carrying values of approximately HK$257,467,000 (2005: HK$240,267,000) and HK$27,000,000 (2005: HK$46,500,000) respectively, as collateral for mortgage loans granted to the Group by certain banks. In addition to the above, property, plant and equipment and inventories of a subsidiary in United States of HK$11,296,000 (2005: HK$14,120,000) and HK$124,055,000 (2005: HK$97,206,000), respectively, were pledged as security for general banking facilities arranged for that subsidiary.

Inventories of frozen fish of HK$758,970,000 (2005: HK$451,149,000) were also pledged as security for the revolving inventory financing facilities obtained from banks.

In addition, shares of certain subsidiaries were pledged as securities for revolving inventory financing facilities obtained from banks for both years.

46. Related Party Transactions

(a) During the year, the Group had entered into the following significant transactions with associates of the Group:

	2006	**2005**
	HK$'000	*HK$'000*
Sales of frozen seafood *(note i)*	558,124	409,928
Purchases of frozen seafood *(note i)*	10,368	24,166
Agency income *(note ii)*	6,254	3,392

Notes:

(i) Sales and purchases of frozen seafood were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.

(ii) Agency income were charged to associates on a cost allocation basis.

(b) Included in the discounting advances drawn on trade receivables with insurance coverage is an amount of HK$75,099,000 (2005: HK$33,591,000) which were drawn from discounting trade receivables with insurance coverage of an associate of HK$83,443,000 (2005: HK$37,323,000).

47. Key Sources of Estimation and Uncertainty

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

Estimation impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment, in accordance with the relevant accounting policies. The recoverable amounts of property, plant and equipment and land use rights have been determined based on value-in-use calculations. These calculations and valuations require the use of judgment and estimates on future operating cash flows and discount rates adopted.

Impairment of goodwill

The Group in determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. The directors are of the opinion that goodwill is not impaired. Details of the impairment loss calculated are provided in note 16.

Estimated allowance of doubtful debts

The Group makes allowance for doubtful trade, bills and other receivables where there is objective evidence of impairment. Where the future discounted cash flow of trade, bills and other receivables is lower than the carrying amount, such difference represents allowance for doubtful debts recognised as expense in the consolidated income statement.

48. Financial Risks Management Objectives and Policies

(a) Credit risk

The Group's credit risk is primarily attributable to its bank balances, trade, bills and other receivables, trade receivable from associates, amount due from associates, amount due from a jointly-controlled entity, loan to a jointly-controlled entity and loan receivable. Cash is placed with creditworthy financial institutions. The trade, bills and other receivables, trade receivable from associates, amounts due from associates, amount due from a jointly-controlled entity, loan to a jointly-controlled entity and loan receivable presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated based on prior year experience.

The credit risk for pledged deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

The Group manages credit risk by arranging for credit insurance when appropriate.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(b) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank borrowings, loan to a jointly-controlled entity and loan receivables. The Group will continue to maintain a reasonable mix of floating rate and fixed rate borrowings and take actions to hedge against any foreseeable interest rate exposure, if necessary.

The interest rates and the interest-bearing debts and loans and receivables of the Group are disclosed in note 20, 21 and 32 respectively.

(c) Foreign currency risk

The Group has exposure to foreign currency risk on the Group's sales denominated in currencies other than the functional currencies of the respective entities and are managed as far as possible by natural hedges of matching assets and liabilities. The Group is exposed to the translation risk on its investment in foreign subsidiaries. This is regularly monitored. The Group does not enter into the financial derivative instruments to hedge its foreign currency risk. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(d) Liquidity risk

The Group has sufficient funds to finance its ongoing working capital requirements, and when necessary, draws on its available credit facilities.

49. Post Balance Sheet Events

Subsequent to 31 March 2006, the following post balance sheet events took place:

(a) The Group acquired 100% of the issued capital of Procesadora Del Carmen S.A., a company incorporated in Peru which principally engaged in fishing operations in the Peruvian waters for cash consideration of HK$34,710,000 (US$4,450,000); and entered into a conditional share purchase agreement to acquire 100% of the issued capital of Alexandra S.A.C. and its subsidiaries, Pesquera Victor S.A.C. and Pesquera Flor de Ilo S.R.L.. These three entities are all incorporated in Peru and are engaged in the extraction, production, transformation, industrialisation and commercialisation of hydrobiological resources and related products such as fishmeal and oil. The cash consideration for this transaction is US$100 million (approximately HK$780 million) subject to the completion of due diligence. Completion of the transactions is subject to certain precedent conditions.

Although the consideration for the acquisition of Procesadora Del Carmen S.A. has been determined, management is in the process of preparing the financial information of Procesadora Del Carmen S.A. as at the completion date to determine the fair value of the identifiable net assets acquired. Since the fair value of the identifiable net assets of Procesadora Del Carmen S.A. have not yet been finalised, in the opinion of the directors of the Company, it is impracticable to disclose the relevant information.

(b) The Group have acquired several staff quarters properties with total consideration amounted to HK$37,393,000.

(c) The Group has signed an agreement with a group of 20 international and local banks for a US$160 million (approximately HK$1.25 billion) Term Loan Facility (the "Facility").

The Facility, comprising two tranches, has a tenure of 5 years (US$60 million (approximately HK$468 million)) and 4 years (US$100 million (approximately HK$780 million)), which carries an annual interest margin of LIBOR + 1.5% and LIBOR + 1.45% respectively. The proceeds from the US$60 million (approximately HK$468 million) tranche will be used to finance the construction of the Group's new processing plant in Hongdao of Qingdao, the PRC, while the US$100 million (approximately HK$780 million) tranche will be used to refinance the Group's short term borrowings and as general working capital.

(d) Land and buildings and plant and machinery of 95.5 million Yen (approximately HK$6,334,000) of a Japanese subsidiary of the Group have been sold to an independent third party for cash consideration of 100 million Yen (approximately HK$6,633,000).

50. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 March 2006 are as follows:

Name	Place/ country of incorporation or registration/ operation	Issued and fully paid-up capital/ contributed capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	attributable to the Group %	Principal activities
Aqua Foods (Qingdao) Co., Ltd.	PRC *(note a)*	Registered RMB6,340,000	100	100	Seafood processing
Best Concept (Far East) Limited	Hong Kong/ Worldwide	Ordinary HK$2	100	100	Trading of frozen seafood products
Bonaire Developments Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100	100	Property holding
Chasterton Group Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100	100	Property holding
China Fishery Group Limited	Cayman Islands	Ordinary US$36,204,000	52	20	Investment holding
China Fisheries International Limited	Samoa/Worldwide	Ordinary US$1,000	52	20	Management and operation of fishing vessels and sales of fish and other marine catches

Name	Place/ country of incorporation or registration/ operation	Issued and fully paid-up capital/ contributed capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activities
Clamford Holding Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100*	100	Investment holding
Europaco Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Europaco (AP) Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Europaco (BP) Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Europaco (EP) Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Europaco (GP) Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Europaco (HP) Limited	Hong Kong/Worldwide	Ordinary HK$2	100	100	Trading of processed seafood products
Europaco (QP) Limited	Samoa/Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Fastact Group Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100	100	Property holding
Glorious Ocean Limited	Hong Kong/ Hong Kong	Ordinary HK$2	100	100	Provision of treasury and administrative services
Grandluck Enterprises Limited	Hong Kong/ Hong Kong	Ordinary US$1	100	100	Property holding
National Fish and Seafood Limited	Hong Kong/ Worldwide	Ordinary HK$2	100	60	Trading of frozen seafood products
National Fish & Seafood Inc.	USA/Worldwide	Ordinary US$10,000	60	60	Trading and processing of frozen seafood products
New Millennium Group Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$5,361,101	100	65	Trading of frozen vegetable
Nouvelle Foods International Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Pacific Andes Enterprises (BVI) Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	65	Trading of frozen seafood products

Name	Place/ country of incorporation or registration/ operation	Issued and fully paid-up capital/ contributed capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activities
Pacific Andes Enterprises (Hong Kong) Limited	Hong Kong/ Worldwide	Ordinary HK$200 Non-voting deferred HK$10,000,000 *(note b)*	100	100	Provision of treasury and administrative services
Pacific Andes Food (BVI) Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100	100	Investment holding
Pacific Andes Food (Hong Kong) Company Limited	Hong Kong/ Hong Kong	Ordinary HK$10,000	100	65	Trading of frozen seafood products
Pacific Andes (Holdings) Limited	Bermuda/Singapore	Ordinary S$132,443,000	65	65	Investment holding
Pacific Andes International Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100*	100	Investment holding
Pacific Andes Treasury Management Limited	Hong Kong/ Hong Kong	Ordinary HK$10,000,000	100	100	Provision of treasury services
Pacific Andes (Europe) Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Pacific Andes (HP) Limited	British Virgin Islands/ Worldwide	Ordinary HK$2	100	100	Trading of processed seafood products
Pacos Processing Limited	Cayman Island/ Worldwide	Ordinary US$1	100	100	Trading of processed seafood products
Pacos Trading Limited	Cayman Island/ Worldwide	Ordinary US$1	100	100	Trading of frozen seafood products
Paco Alpha Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	100	Vessel holding
Paco Beta Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	65	Trading of marine fuel
Paco Gamma Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	65	Vessel holding
Parkmond Group Limited	British Virgin Islands/ Worldwide	Ordinary US$1	100	65	Trading of frozen seafood products
Pelican Food Limited	British Virgin Islands/ Worldwide	Ordinary US$100	100	100	Investment holding

Name	Place/ country of incorporation or registration/ operation	Issued and fully paid-up capital/ contributed capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activities
Qingdao Canning & Foodstuff Co. Ltd.	PRC *(note a)*	Registered US$12,100,000	100	100	Seafoods processing
Pacific Andes Food Limited	PRC *(note a)*	Registered US$14,900,000	100	100	Seafoods processing
Sevenseas Enterprises Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	100	100	Property holding
Xinxing Foodstuffs (Qingdao) Company Limited	PRC *(note a)*	Registered US$910,000	100	100	Seafood processing

Notes:

(a) The subsidiaries are wholly foreign owned enterprises registered in PRC.

(b) The non-voting deferred shares carry practically no rights to dividends nor receive notice of nor to attend or vote at any general meeting of the relevant company nor to participate in any distribution on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or constituted a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year.

51. Particulars of Principal Associates

Particulars of the Group's principal associates as at 31 March 2006 are as follows:

Name	Forms of business structure	Place of incorporation	Attributable proportion of nominal value of issued registered capital held by the Company	Principal activities
Global Research Group Inc.	Incorporated	British Virgin Islands	50%	Investment holding
Global Research Services Inc.	Incorporated	British Virgin Islands	50%	Provision of interactive electronic data base
Pacos Processing Limited	Incorporated	Republic of Cyprus	20%	Trading of processed seafood products
Paco-EP Limited	Incorporated	Republic of Cyprus	20%	Trading of processed seafood products

Name	Forms of business structure	Place of incorporation	Attributable proportion of nominal value of issued registered capital held by the Company	Principal activities
Paco-GP Limited	Incorporated	Republic of Cyprus	20%	Trading of processed seafood products
Paco-HP Limited	Incorporated	Republic of Cyprus	20%	Trading of processed seafood products
Pacos (QP) Limited	Incorporated	Republic of Cyprus	20%	Trading of processed seafood products
Pacos Trading Limited	Incorporated	Republic of Cyprus	13%*	Trading of frozen seafood products
Paco (ET) Limited	Incorporated	Republic of Cyprus	13%*	Trading of frozen seafood products
Paco (GT) Limited	Incorporated	Republic of Cyprus	13%*	Trading of frozen seafood products
Paco (HT) Limited	Incorporated	Republic of Cyprus	13%*	Trading of frozen seafood products
Sino Analytica	Incorporated	PRC	49%	Provision of testing services

* *The Group is able to exercise significant influence because these companies are associates of Pacos Trading Limited (Cayman).*

The following is the management discussion and analysis extracted from the annual report of the Company for the year ended 31 March 2006.

BUSINESS REVIEW

Consumers around the world, and especially those in the growingly affluent China, are becoming more health conscious, which explains the continuous surge in global demand for fish. Led by a highly experienced management team and supported by an enhanced supply chain infrastructure and strengthened fishing capabilities, we are poised to capitalize on the increasing market demand to sustain business growth.

The successful integration of the upstream operations of the deep-sea fishing specialist, China Fishery with the Group's downstream logistics, trading and distribution operations has created significant synergies and economies of scale in our supply chain management operation, enabling us to gain access to new markets and exploit new areas of growth. The Group has gained controlling share of China Fishery which gave it full control of the entire supply chain of its frozen seafood operations, which cover harvesting, transportation, processing, trading and distribution of a wide variety of frozen seafood products. In January 2006, China Fishery achieved a new milestone. It mounted an IPO of

57 million new shares and became listed on the Main Board of the Singapore Exchange. The IPO was warmly received by both institutional and individual investors and brought an exceptional gain of HK$81 million to the Group.

Since the world's ocean wild-catch resources are limited but the demand of which have been increasing continually, various forms of governmental control measure have been established to limit the growth of the ocean wide-catch quantities in order to preserve the resources. To cope with this industrial phenomenon, the Group has been actively exploring ways of securing additional sources of supply, especially through establishing long term alliances with those fishing companies which own or control fishing licenses and quota and using existing resources more efficiently. In February 2006, China Fishery signed a new vessel operating agreement ("VOA") resulting in the immediate doubling of its fishing capabilities in the Pacific Ocean. To expand our processing capacity and enhance the value adding of our processing operation, the Group is constructing a new processing plant in Hongdao, Qingdao which will focus on putting out high value-added, high-margin products and environmental-friendly waste-converted fishmeal products into its portfolio.

As the development of our vertically-integrated supply chain has come to fruition, Pacific Andes continues to stand out in the seafood industry by the scale and scope of our operations during the review period.

OPERATIONS REVIEW

Market Analysis

While ocean wild-catches have not been growing during the past two decades, global population growth and change of dietary habits has seen demand for fish rising persistently, translating into opportunities for the Group. All of the Group's markets contributed more revenue during the year when compared with the previous year.

China remained as Pacific Andes' major revenue contributor accounting for 49.9% of its total sales mix for FY2006. The Group recorded turnover of HK$6,157 million, 16.2% higher than last year's. The prospering Chinese economy and growing purchasing power of the people have resulted in the Chinese consumers' active pursuit of a more healthy and balanced food diet. This have braced the continuous rise of per capita consumption of fishery products in China. With a huge population, a 1 kg increase in per capita consumption of fishery products in China would add up in total to a jump in demand of 1.2 million metric tons or 1.5% of the total ocean wild-catch fishery products. Thus, a steady growth in demand for fish products in the market is expected in the coming years.

North America is the second largest market of the Group during the financial year, accounting for 19.6% of its total sales mix. Sales to the market totaled HK$1,205 million, a healthy 15.1% growth when compared with the previous year. Sales to Western Europe, which accounted for 19.5% to our total sales, increased by 9.6% to HK$1,200 million in the year. Ready-made meals using fishery products as the main ingredients continued to gain popularity worldwide. The Western European and North American markets with a strong craving for quality fish products have come to rely on imports and that has lifted the market prices of fishery products.

The Group's successful foray into the markets in Korea and Japan was reflected in the surge of sales to HK$210 million and HK$291 million respectively in FY2006, compared to HK$79 million and HK$178 million respectively in FY2005.

Product Analysis

Seafood Division

The Group's seafood division, boasting a decade-long operation, is today one of the world's leading frozen seafood processors and suppliers. With a comprehensive and well-integrated supply chain management operation, it harvests and sources seafood products globally, transforms them into different forms of quality products, and distributes the products to consumers around the world. In FY2006, the Group recorded sales of approximately 355,000 metric tons, valuing HK$6,078 million, of frozen seafood products, representing to an increase of 16.0% when compared with the previous year.

Fishing

Aspiring to become a leading force in the seafood industry, the Group has sought to constantly strengthen its fishing capability. Its subsidiary China Fishery operates 41 trawlers and super trawlers to fish all year round in the Pacific, Atlantic and Indian Oceans. In FY2006, China Fishery harvested and processed approximately 68,000 metric tons of fish. It contributed HK$620 million in sales and net profit of HK$55.9 million to the Group.

A new VOA signed by China Fishery in February 2006 has enabled itself to utilise the requisite fishing quotas and licenses to fish in Russian economic waters in the North Pacific Ocean and equipped it with advanced technology and facilities to enhance yields and conduct at-sea processing of catches. This new VOA enabled China Fishery to double the size of its super-trawler fleet to 14 and accordingly its fishing capabilities. With powerful at-sea initial processing capability and extended operational cycles, the Group stands prime to capitalize on potential fishing grounds and introduce new fish species to markets, and in turn assure economic benefits for itself.

Sourcing and Trading

Frozen fish, sold predominantly to the PRC market, remained as the largest revenue contributor of the Group and accounted for 47.4% of total sales. Sales value jumped 7.0% to HK$2,921 million.

Processing & Distribution

Sales of fillets and portions increased 9.4% to HK$2,537 million and accounted for 41.2% of the Group's total sales mix. The sale growth was mainly supported by sustained demand for processed seafood from the markets in North America and Western Europe.

During the year under review, the Group's Japanese seafood processing subsidiary, Kyoshoku, reported a goodwill impairment of HK$12,460,000 and a loss of HK$53.0 million which the Group recognized 60% of this loss of HK$31.8 million in the current financial results. Heeding the general rise in operating cost in Japan, the Group is relocating production there to China to take advantage of the country competitive labour and production costs and improve profitability. Upon completion, the Group expects Kyoshoku will achieve breakeven in the second half of 2006.

Vegetable and Plantation Division

Difficulties in securing appropriate farmland in the PRC explains the insignificant contribution from vegetable business covering such operations as farming and processing of vegetable products. Thus, during the year under review, the Group ceased to cultivate and process vegetables and concentrated on sourcing and distribution of vegetable products. This resulted in a one-time impairment loss amounting to approximately HK$11.5 million from the write-down of related assets and inventories.

Liquidity and Financial Resources

As at 31 March 2006, our total bank borrowings increased 51.5%, from HK$2,029 million in FY2005 to HK$3,074 million in FY2006. The increased bank borrowing was used to finance the temporary increase of inventory and trade receivables due to the late start of the fishing activities in the North Pacific Ocean in the last quarter of FY2006 and the increase in raw material holdings to meet growing demand for processed seafood products in North American and European markets. Inventory and accounts receivable came down significantly in the first half of FY2007.

As at 31 March 2006, our cash on hand amounted to HK$337 million. Gearing ratio increased slightly to 53.8% in FY2006. Gearing ratio represents total debts to total assets.

As the Group does not maintain a significant open position in any foreign currency at any time, it has minimal exposure to currency risks. In view of the latest announcement of the revaluation of the RMB, the Group sees a slight increase for operating cost. However, since the PRC market for frozen fish accounts for half of the Group's total sales and the people's purchasing power is improving, the Group expects to see sales from frozen fish trading enhanced. The Group actively protects its foreign currency vulnerabilities through natural hedges and forward contracts. It does not engage in any speculative currency transactions.

Employees and Remuneration

As at 31 March 2006, the Group had a total of 6,300 employees. Remuneration packages offered to employees are in line with industry standards and reviewed annually. The award of bonuses is decided based on the performance of the individual employee as well as the Group's performance. Other staff benefits include medical allowance and mandatory provident fund. The Company and its non-wholly owned subsidiary, PAH, each has an employees' share option scheme to allow for granting of share options to selected eligible employees, depending on their contribution to the company.

Environmental Conservation

As a company whose business is sourcing and marketing fish and seafood products, Pacific Andes is keenly aware of its responsibilities to respect fishing quotas, conserve fishing grounds, and to take the lead in encouraging governments and fishing companies globally to protect the environment and marine resources. We see this as a long-term commitment to ensure the world has sustainable fishery resources. We are committed to supporting a responsible and efficient fishing industry dedicated to striking a balance between consumer demand and conservation of stock for the future. During the year, we made an industry-first move, which was to appoint our external auditors, Deloitte Touche Tohmatsu, to independently verify that all the Group's fish sourced are accompanied by the proper certification and documentation issued by the relevant governments or other appropriate authorities. This is to ensure that illegally caught fish does not enter our supply chain. The results of this audit will be published on our website on a quarterly basis. This is one way Pacific Andes, as a company can, contribute to conservation of the environment.

III. UNAUDITED CONSOLIDATED INTERIM RESULTS OF THE GROUP FOR THE PERIOD ENDED 30 SEPTEMBER 2006

The following information has been extracted from the interim report of the Company for the six months ended 30 September 2006 together with notes thereto:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

		Six months ended	
		30.9.2006	**30.9.2005**
	Notes	*HK$'000*	*HK$'000*
		(unaudited)	(unaudited)
Turnover	*3*	3,789,776	2,487,486
Cost of sales		(3,178,717)	(2,100,611)
Gross profit		611,059	386,875
Other income		43,878	10,086
Selling and distribution expenses		(46,190)	(55,519)
Administrative expenses		(114,966)	(120,510)
Loss on deemed disposal of interest in a subsidiary		–	(12,729)
Finance costs		(111,920)	(74,864)
Share of results of associates		1,002	13
Profit before taxation	*4*	382,863	133,352
Taxation	*5*	(12,014)	(3,060)
Profit for the period		370,849	130,292
Attributable to:			
Equity holders of the Company		176,132	71,152
Minority interests		194,717	59,140
		370,849	130,292
Dividend	*6*	62,490	–
Earnings per share	*7*		
Basic		HK16.0 cents	HK7.1 cents
Diluted		HK15.7 cents	HK7.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006

	Notes	As at 30.9.2006 HK$'000 (unaudited)	As at 31.3.2006 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	757,725	578,205
Investment properties	8	109,333	104,835
Prepaid lease payments		28,045	28,039
Goodwill	9	137,361	129,500
Deferred charter hire	10	800,670	604,890
Interests in associates		2,092	1,090
Loan to a jointly-controlled entity		11,050	11,050
Loan receivables		33,050	33,163
Intangible assets	11	67,683	22,763
Deposit paid for acquisition of property		20,666	–
Deposit paid for acquisition of subsidiaries	12	101,400	–
Other long term receivable		928	928
		2,070,003	1,514,463
CURRENT ASSETS			
Inventories		1,869,596	1,951,465
Trade, bills and other receivables	13	1,303,147	2,329,681
Trade receivables with insurance coverage	14	283,306	252,893
Trade receivables from associates	15	141,229	119,988
Amounts due from associates		23,746	23,074
Amount due from a jointly-controlled entity		864	575
Tax recoverable		861	1,124
Pledged deposits		885	1,789
Bank balances and cash		395,811	337,271
		4,019,445	5,017,860
CURRENT LIABILITIES			
Trade and other payables	16	440,532	362,928
Amount due to an associate		7,406	7,847
Taxation		23,684	13,924
Obligation under finance lease – due within one year		1,536	–
Bank advances drawn on discounted trade receivables with insurance coverage and discounted bills	17	276,388	437,189
Bank borrowings – due within one year	18	1,366,868	2,865,340
		2,116,414	3,687,228
NET CURRENT ASSETS		1,903,031	1,330,632
TOTAL ASSETS LESS CURRENT LIABILITIES		3,973,034	2,845,095

	Notes	As at 30.9.2006 HK$'000 (unaudited)	As at 31.3.2006 HK$'000 (audited)
NON-CURRENT LIABILITIES			
Obligation under finance lease – due after one year		7,144	–
Bank borrowings – due after one year	*18*	741,467	208,504
Amount due to joint venture partner of a jointly-controlled entity		11,050	11,050
Deferred taxation		48,477	26,490
		808,138	246,044
NET ASSETS		3,164,896	2,599,051
CAPITAL AND RESERVES			
Share capital	*19*	120,173	101,586
Share premium and reserves		1,871,673	1,478,813
Equity attributable to equity holders of the Company		1,991,846	1,580,399
Minority interests		1,173,050	1,018,652
TOTAL EQUITY		3,164,896	2,599,051

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Attributable to equity holders of the Company									
	Share capital	Share premium	Property revaluation reserve	Translation reserve	Goodwill reserve	Special reserve	Retained profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005	99,942	633,908	64,126	2,869	(135,913)	9,800	738,671	1,413,403	396,654	1,810,057
Surplus on revaluation of properties	–	–	12,265	–	–	–	–	12,265	–	12,265
Deferred tax liability arising on revaluation of properties	–	–	(2,554)	–	–	–	–	(2,554)	–	(2,554)
Exchange differences on translation of foreign operations	–	–	–	(1,111)	–	–	–	(1,111)	(838)	(1,949)
Net income (expense) recognised directly in equity	–	–	9,711	(1,111)	–	–	–	8,600	(838)	7,762
Profit for the period	–	–	–	–	–	–	71,152	71,152	59,140	130,292
Total recognised income and expense for the period	–	–	9,711	(1,111)	–	–	71,152	79,752	58,302	138,054
Share issued at premium	403	974	–	–	–	–	–	1,377	–	1,377
Transaction costs attributable to issue of new shares	–	(235)	–	–	–	–	–	(235)	–	(235)
Dividend	–	–	–	–	–	–	(54,187)	(54,187)	(17,540)	(71,727)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	15,840	15,840
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	(22,417)	(22,417)
Consolidation of former jointly-controlled entities	–	–	–	–	–	–	–	–	135,958	135,958
Contributions from minority interests	–	–	–	–	–	–	–	–	23,269	23,269
Deemed disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	12,729	12,729
At 30 September 2005	100,345	634,647	73,837	1,758	(135,913)	9,800	755,636	1,440,110	602,795	2,042,905
At 1 April 2006	101,586	650,772	88,182	(1,570)	(135,913)	9,800	867,542	1,580,399	1,018,652	2,599,051
Surplus on revaluation of properties	–	–	31,447	–	–	–	–	31,447	312	31,759
Deferred tax liability arising on revaluation of properties	–	–	(4,332)	–	–	–	–	(4,332)	–	(4,332)
Exchange differences on translation of foreign operations	–	–	–	10,475	–	–	–	10,475	388	10,863
Net income recognised directly in equity	–	–	27,115	10,475	–	–	–	37,590	700	38,290
Profit for the period	–	–	–	–	–	–	176,132	176,132	194,717	370,849
Total recognised income and expense for the period	–	–	27,115	10,475	–	–	176,132	213,722	195,417	409,139
Share issued at premium	18,587	241,628	–	–	–	–	–	260,215	–	260,215
Dividend	–	–	–	–	–	–	(62,490)	(62,490)	(41,019)	(103,509)
At 30 September 2006	120,173	892,400	115,297	8,905	(135,913)	9,800	981,184	1,991,846	1,173,050	3,164,896

CONDENSED CONSOLIDATED CASHFLOW STATEMENT
For the six months ended 30 September 2006

	Six months ended	
	30.9.2006	**30.9.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash from operating activities	1,316,431	482,659
Net cash used in investing activities	(299,700)	(33,965)
Net cash used in financing activities	(966,391)	(494,263)
Net increase (decrease) in cash and cash equivalents	50,340	(45,569)
Cash and cash equivalents at beginning of the period	337,271	282,442
Effect of foreign exchange rate changes	8,200	–
Cash and cash equivalents at end of the period	395,811	236,873
Representing:		
Bank balances and cash	395,811	236,873

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2006, except as described below.

In the current period, the Group has adopted, for the first time, a number of new standards, amendments and interpretations (herein after collectively referred to as the "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning either on or after 1 December 2005, 1 January 2006 and 1 March 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-INT 4	Determining Whether an Arrangement Contains a Lease
HK(IFRIC)-INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following news standards or interpretations that have been issued but are not yet effective. The Group is still not in the position to reasonably estimate the impact that may arise from the application of these standards or interpretations.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC)-INT 8	Scope of HKFRS 2[2]
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives[3]
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 May 2006.
3 Effective for annual periods beginning on or after 1 June 2006.
4 Effective for annual periods beginning on or after 1 November 2006.

3. TURNOVER AND SEGMENT INFORMATION

The turnover and segment results of the Group for the six months ended 30 September 2006 and 2005, analysed by principal activity and geographical market by sales are as follows:

Business segments

For management purposes, the Group is currently organised into four operating divisions – frozen fish supply chain management ("SCM"), fillets and portions, fishing and others.

For the six months ended 30 September 2006

	Frozen fish SCM	**Fillets and portions**	**Fishing**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
TURNOVER					
External Sales	1,682,714	1,533,537	565,515	8,010	3,789,776
RESULT					
Segment results	123,507	153,054	205,400	(422)	481,539
Unallocated corporate income					31,818
Unallocated corporate expenses					(19,576)
Finance costs					(111,920)
Share of results of associates	832	170	–	–	1,002
Profit before taxation					382,863
Taxation					(12,014)
Profit for the period					370,849

There are no inter-segment sales between different segments for the six months ended 30 September 2006.

For the six months ended 30 September 2005

	Frozen fish SCM HK$'000 (unaudited)	Fillets and portions HK$'000 (unaudited)	Fishing HK$'000 (unaudited)	Others HK$'000 (unaudited)	Elimination HK$'000 (unaudited)	Consolidated HK$'000 (unaudited)
TURNOVER						
External Sales	1,290,916	1,041,305	145,381	9,884	–	2,487,486
Inter-segment sales	17,956	–	132,171	–	(150,127)	–
Total	1,308,872	1,041,305	277,552	9,884	(150,127)	2,487,486
RESULT						
Segment result	108,610	63,276	66,729	(2,777)	–	235,838
Unallocated corporate income						589
Unallocated corporate expenses						(15,495)
Loss on deemed disposal of interest in a subsidiary						(12,729)
Finance costs						(74,864)
Share of results of associates	(38)	51	–	–	–	13
Profit before taxation						133,352
Taxation						(3,060)
Profit for the period						130,292

Inter-segment sales are charged at cost plus a percentage profit mark up.

Geographical segments

The Group's operations are located in the People's Republic of China (the "PRC"), North America, Western Europe and East Asia.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Six months ended 30.9.2006 HK$'000 (unaudited)	Six months ended 30.9.2005 HK$'000 (unaudited)
PRC	1,877,964	1,257,076
North America	702,986	419,682
Western Europe	791,567	538,774
East Asia	328,127	177,786
Others	89,132	94,168
	3,789,776	2,487,486

4. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended	
	30.9.2006	**30.9.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Amortisation of deferred charter hire included in cost of sales	53,820	16,588
Amortisation of prepaid lease payments	140	140
Depreciation	34,078	22,716
Loss on disposal of property, plant and equipment	1,665	365
Fair value changes on investment properties	(4,498)	(3,000)
Interest income	(26,632)	(589)
Reversal of revaluation decrease of land and buildings previously charged to income statement	(889)	(1,628)

5. TAXATION

	Six months ended	
	30.9.2006	**30.9.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The charge comprises:		
Hong Kong Profits Tax	10,917	2,885
Deferred taxation	1,097	175
Tax charge for the period	12,014	3,060

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the period.

In the opinion of the directors of the Company, substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and accordingly that portion of profit is not subject to Hong Kong Profits Tax.

6. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2006.

During the period, a dividend of HK5.2 cents was paid to shareholders as the final dividend for the year ended 31 March 2006 (30.9.2005: Subsequent to the period end, a dividend of HK5.4 cents was paid to shareholders as the final dividend for the year ended 31 March 2005).

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30.9.2006	**30.9.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings for the purpose of calculation of basic and diluted earnings per share	176,132	71,152
Weighted average number of ordinary shares for the purposes of calculation of basic earnings per share	1,102,185,204	1,000,513,075
Effect of dilutive potential ordinary shares in respect of:		
– warrants	17,900,966	–
– share options	–	2,187,210
Weighted average number of ordinary shares for the purposes of calculation of diluted earnings per share	1,120,086,170	1,002,700,285

For the six months ended 30 September 2005, the computation of diluted earnings per share does not assume the subscription of the Company's warrants as the subscription price of the Company's warrants was higher than the average market price of the shares.

For the six months ended 30 September 2006, the computation of diluted earnings per share does not account for the effect of share options as there is no outstanding share options during the period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 September 2006, the Group spent HK$57,306,000 on land and buildings, HK$6,548,000 on leasehold improvements, HK$8,741,000 on furniture, fixtures and office equipment, HK$28,104,000 on plant and machinery and HK$6,324,000 on motor vehicles.

In addition, the Group incurred HK$51,122,000 on the construction of a new manufacturing plant in the PRC, in order to expand its processing capabilities.

Moreover, as set out in note 20, the Group through acquisition of subsidiaries acquired certain property, plant and equipment at a fair value of HK$28,945,000.

The Group's leasehold land and buildings classified as property, plant and equipment were revalued by BMI Appraisals Limited, an independent property valuer, at 30 September 2006.

The resulting revaluation surplus of HK$31,447,000 and HK$889,000 have been credited to the property revaluation reserve and income statement respectively.

During the six months ended 30 September 2006, the Group disposed of property, plant and equipment with a carrying amount of HK$8,475,000 to independent third parties for HK$6,810,000.

The Group's investment properties were revalued by BMI Appraisals Limited, an independent property valuer, at 30 September 2006. The resulting increase in fair value of investment properties of HK$4,498,000 has been recognised directly in the income statement.

9. GOODWILL

	30.9.2006	31.3.2006
	HK$'000	*HK$'000*
	(unaudited)	(audited)
GROSS AMOUNT		
At beginning of period/year	142,855	120,189
Arising on the acquisition of subsidiaries *(note 20)*	7,861	12,460
Arising on the acquisition of a jointly-controlled entity	–	497
Arising on the acquisition of additional interest in a subsidiary	–	9,709
At end of period/year	150,716	142,855
IMPAIRMENT		
Impairment loss recognised in the year ended 31 March 2006 and balance at 31 March 2006 and 30 September 2006	(13,355)	(13,355)
CARRYING AMOUNTS		
At end of period/year	137,361	129,500

10. DEFERRED CHARTER HIRE

Deferred charter hire represents future charter hire expense for fishing vessels which have been prepaid. They are amortised and charged to the consolidated income statement as charter hire expense pro-ratably over the period for which prepayments are made and the benefits are expected to accrue.

During the six months ended 30 September 2006, the Group has prepaid additional deferred charter hire expense of HK$249,600,000 according to the new vessel operating agreements ("VOA"). The new VOA enables the Group to utilise the requisite fishing quotas and licenses to catch in Russian economic waters in the North Pacific Ocean.

11. INTANGIBLE ASSETS

Intangible assets comprise club debentures of HK$23,963,000 (31.3.2006: HK$22,763,000) and fishing permits of HK$43,720,000 (31.3.2006: HK$Nil) granted by the authority in Peru with indefinite useful lives.

During the period, the Group purchased and through acquisition of a subsidiary acquired fishing permits with a carrying amount of HK$17,058,000 and HK$26,662,000 respectively.

These fishing permits are attached to fishing vessels and are transferable to other vessels with same or lower capacity should the original vessels become obsolete or sink. The cost of purchasing the fishing vessel with the attached permit and the cost of acquiring the subsidiary which owns fishing vessels and attached fishing permits are allocated to the respective components of assets acquired on the basis of valuation reports prepared by an independent third party valuer.

Management has obtained legal advice that these fishing permits do not have a finite term and remain in full force and good standing as long as the applicable legal requirements are complied with.

12. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

On 12 June 2006, the Group's subsidiary, CFG Investment S.A.C., entered into a conditional share purchase agreement to acquire the entire equity interests in Alexandra S.A.C. and its subsidiaries, Pesquera Victor S.A.C. and Pesquera Flor Ilo S.R.L. (the "Alexandra Group").

Alexandra and its subsidiaries are incorporated in Peru and are engaged in the extraction, production, transformation, industrialisation and commercialisation of hydrobiological resources and related products such as fishmeal and fish oil.

At 30 September 2006, deposit of US$13,000,000 (approximately HK$101,400,000) was paid for the acquisition of Alexandra Group. The acquisition of Alexandra Group was completed on 26 October 2006 and the consideration was determined to be US$103,600,000 (approximately HK$808,100,000). The management of the Company is still in the process of determining the financial effect of the acquisition.

13. TRADE, BILLS AND OTHER RECEIVABLES

Included in trade, bills and other receivables are trade receivables of HK$676,804,000 (31.3.2006: HK$1,355,559,000) and bills receivables of HK$31,900,000 (31.3.2006: HK$107,618,000). The Group maintains a defined credit policy. For sales of goods, the Group allows an average credit period of 30 days to 120 days to the trade customers. The aged analysis of trade receivables and bills receivables at the balance sheets date is as follows:

	30.9.2006	**31.3.2006**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Less than 30 days	138,052	518,420
31 – 60 days	141,518	367,987
61 – 90 days	240,475	384,081
91 – 120 days	187,601	192,689
Over 120 days	1,058	–
	708,704	1,463,177

Included in the bills receivables are amount of HK$31,900,000 (31.3.2006: HK$107,210,000) in respect of bills discounted to certain banks under the bills discounting advance facilities.

Included in other receivables are amounts of HK$302,312,000 (31.3.2006: HK$491,648,000) in respect of prepayments made for the purchase of frozen fish inventories and current portion of deferred charter hire of HK$107,640,000 (31.3.2006: HK$107,640,000). These amounts are unsecured and interest free.

14. TRADE RECEIVABLES WITH INSURANCE COVERAGE

Included in the trade receivables with insurance coverage are discounted trade receivables of HK$192,275,000 (31.3.2006: HK$231,858,000) and factored trade receivable of HK$33,498,000 (31.3.2006: HK$21,035,000) which have been discounted and factored to certain banks under the receivable discounting and factoring advance facilities (note 17).

The aged analysis of the trade receivables with insurance coverage at balance sheet date is as follows:

	30.9.2006	31.3.2006
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Less than 30 days	201,025	168,711
31 – 60 days	65,275	62,710
61 – 90 days	16,210	20,793
91 – 120 days	322	524
Over 120 days	474	155
	283,306	252,893

15. TRADE RECEIVABLES FROM ASSOCIATES

For trade receivables from associates on sales of goods, the Group allows an average credit period of 30 days to 60 days. The age of trade receivables from associates at balance sheet date are all less than 30 days.

16. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$241,021,000 (31.3.2006: HK$226,405,000). The aged analysis of trade payables at the balance sheet date is as follows:

	30.9.2006	31.3.2006
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Less than 30 days	173,277	107,980
31 – 60 days	35,184	19,859
61 – 90 days	25,004	66,465
Over 90 days	7,556	32,101
	241,021	226,405

17. BANK ADVANCES DRAWN ON DISCOUNTED TRADE RECEIVABLES WITH INSURANCE COVERAGE AND DISCOUNTED BILLS

Bank advances drawn on discounted trade receivables with insurance coverage (note 14) and discounted bills (note 13) represent advances from bank on discounting and factoring certain trade receivables with insurance coverage and bills receivable under the receivable discounting and factoring advance facilities.

18. BANK BORROWINGS

During the period, the Group entered into a syndicated term loan agreement with 20 international and local banks for US$160 million (approximately HK$1,248,000,000). The Group has drawn US$100,000,000 (approximately HK$780,000,000) during the period to refinance part of the Group's short term borrowings into long term borrowings and made net repayment of HK$953,479,000.

19. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Issued and fully paid		
At 1 April 2006	1,015,859,684	101,586
Exercise of warrants	185,868,069	18,587
At 30 September 2006	1,201,727,753	120,173

Each warrants entitles the registered holder to subscribe in cash at an initial subscription price of HK$1.40, subject to adjustment, for one ordinary share of HK$0.10 each in the Company, at any time from 1 February 2005 to 31 July 2006 (both dates inclusive).

During the period, 185,868,069 (1.4.2005 to 31.3.2006: 12,434,127) warrants were exercised to subscribe for ordinary shares. At 30 September 2006, the Company had no outstanding warrants (31.3. 2006: 187,445,921 outstanding warrants). As at 31 March 2006, exercise in full of such warrants would result in the issue of 187,445,921 additional shares.

20. ACQUISITION OF A SUBSIDIARY

On 4 May 2006, the Group acquired 100% of the issued capital of Procesadora Del Carmen S.A. ("Procesadora"), a company incorporated in Peru which is principally engaged in fishing operations in the Peruvian waters for cash consideration of US$4,632,000 (approximately HK$36,130,000). This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Carrying amount before combination	Adjustments	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	8,223	20,722	28,945
Intangible assets	–	26,662	26,662
Trade, bills and other receivables	649	–	649
Bank balances and cash	43	–	43
Trade and other payables	(7,622)	–	(7,622)
Bank borrowings	(4,160)	–	(4,160)
Deferred taxation	–	(16,248)	(16,248)
			28,269
Goodwill			7,861
Consideration, satisfied by cash			36,130
Net cash outflow arising on acquisition:			
Cash consideration paid			(36,130)
Cash and cash equivalents acquired			43
			(36,087)

Note:

The goodwill arising on the acquisition of Procesadora is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Procesadora contributed HK$4,337,000 revenue and net loss of HK$1,288,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 April 2006, the total Group revenue for the period would have been HK$3,791,023,000 and profit for the period would have been HK$369,684,000. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2006, nor is it intended to be a projection of future results.

21. CAPITAL COMMITMENTS

	30.9.2006	**31.3.2006**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
At the balance sheet date, the Group had commitment for capital expenditure as follows:		
Contracted for but not provided in the financial statements		
– acquisition of property, plant and equipment	115,738	27,538
– acquisition of subsidiaries	658,400	–

22. CONTINGENT LIABILITIES

Feoso (Singapore) Private Limited ("Feoso") has issued a writ of summons against the Company, two employees (the "Employees") of the Company and Ever Bright Energy Co. Ltd. ("Ever Bright") on 21 June 2005 in relation to a dispute over supply of oil products by Ever Bright to Feoso in November 1999. The amount claimed in the writ approximates US$3,709,000 (approximately HK$28,930,000) plus interest, costs and other ancillary relief.

Ever Bright was formerly an indirectly wholly-owned subsidiary of Pacific Andes (Holdings) Limited, a subsidiary of the Company with its shares listed on The Singapore Exchange Securities Trading Limited. The Group disposed its interest in Ever Bright on 31 January 2000.

The Company's legal advisors are still at the preliminary stage of investigating the claim and in the process of instructing counsel to advise on the matter. However, their preliminary view is that the Company has a good defence and the case is likely to be resolved in the Company's favour.

In the opinion of the directors, the Company has valid grounds to defend the claim and as such, no provision for this claim has been made in the financial statements.

23. PLEDGE OF ASSETS

At 30 September 2006, the Group has pledged land and buildings and investment properties with aggregate carrying values of approximately HK$313,267,000 (31.3.2006: HK$257,467,000) and HK$29,500,000 (31.3.2006: HK$27,000,000) respectively, as collateral for mortgage loans granted to the Group by certain banks. In addition to the above, property, plant and equipment and inventories of a subsidiary in United States of HK$10,166,000 (31.3.2006: HK$11,296,000) and HK$192,066,000 (31.3.2006: HK$124,055,000), respectively, were pledged as security for general banking facilities granted for that subsidiary.

Inventories for frozen fish of HK$624,205,000 (31.3.2006: HK$758,970,000) were also pledged as security for the syndicated term loan facilities (31.3.2006: revolving inventory financing facilities) obtained from banks.

In addition, shares of certain subsidiaries were pledged as securities for revolving inventory financing facilities obtained from banks for the both periods.

24. RELATED PARTY TRANSACTIONS

(a) During the period, the Group entered into the following significant transactions with associates of the Group:

	Six months ended	
	30.9.2006	**30.9.2005**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Sales of frozen seafood *(note i)*	254,245	193,325
Purchase of frozen seafood *(note i)*	17,126	4,832
Agency income *(note ii)*	2,800	2,056

Notes:

(i) Sales and purchases of frozen seafood were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.

(ii) Agency income were charged to associates on a cost allocation basis.

(b) Included in the discounting advances drawn on trade receivables with insurance coverage is an amount of HK$41,292,000 (31.3.2006: HK$75,099,000) which were drawn from discounting trade receivables with insurance coverage of an associate of HK$45,880,000 (31.3.2006: HK$83,443,000).

25. SUBSEQUENT EVENT

On 12 December 2006, CFG Investment S.A.C. issued 9.25% senior notes due 2013 with an aggregate amount US$225 million (approximately HK$1,755 million) to finance the acquisition of Alexandra S.A.C. for future expansion of the Group's fishing business.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants of Pacific Andes International Holdings Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

16 April 2007

The Directors
Pacific Andes International Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding the Target business (as defined below) carried out by Alexandra S.A.C. (the "Target Co") and its subsidiaries (hereinafter collectively referred to as the "Target Group") for each of the three years ended 31 December 2006 (hereinafter collectively referred to as the "Relevant Periods") for inclusion in the circular dated 16 April 2007 (the "Circular") of Pacific Andes International Holdings Limited (the "Company") in connection with the acquisition of the entired issued share capital of the Target Co (the "Acquisition") by CFG Investments S.A.C. ("CFGI"), a subsidiary of the Company.

Target Co was incorporated on 11 March 1994 and registered in Peru under the laws of the Republic of Peru as a private limited liability company. It acts as an investment holding company. The Target Group is mainly engaged in the extraction, transformation into fish meal and fish oil and exportation of hydrobiological products for indirect human consumption, as well as in the marketing of these products in the international market (the "Target Business").

Prior to the completion of Acquisition on 26 October 2006, the Target Co has the following subsidiaries which have financial year end date on 31 December:

Name of subsidiary	Place and date of incorporation/ establishment	Equity interest attributable to the Target Co at 31 December 2004	2005	Principal activities
Empresa Pesquera Flor de I10 S.R.L. ("Pesquera Flor")	Peru 1 September 1997	99.98%	99.98%	Extraction of anchovy and traded to Target Co
Industrial Pesquera I10 S.A. ("Industrial")	Peru 18 December 1995	N/A *(note 1)*	N/A *(note 1)*	Extraction, transformation into fish meal & fish oil and exportation of hydrobiological products for indirect human consumption

Name of subsidiary	Place and date of incorporation/ establishment	Equity interest attributable to the Target Co at 31 December 2004	2005	Principal activities
Pesquera Fantasia S.A. ("Fantasia")	Peru 3 March 1999	N/A *(note 3)*	N/A	Extraction of anchovy and traded to Target Co
Pesquera Victor S.A.C. ("Pesquera Victor")	Peru 19 November 2003	65.75% *(note 1)*	100% *(note 2)*	Extraction, transformation into fish meal & fish oil and exportation of hydrobiological products for indirect human consumption

Notes:

1. On 3 February 2004, the Target Co subscribed 99.67% equity interests in Pesquera Victor by capitalisation of debt of S/.300,000. On 25 June 2004, Target Co acquired 56.63% equity interest in Industrial for a consideration of US$1,473,170 (S/.5,112,000). In General Shareholders' Meeting of Industrial held on 13 August 2004, Target Co acquired an additional 4.79% equity interest in Industrial through the capitalisation of Target Co's debts of US$413,000 (S/.1,408,000); as a consequence, Target Co held 61.42% issued capital in Industrial. In General Shareholders' Meeting of Industrial held on 10 December 2004, Target Co acquired an additional 4.03% issued capital in Industrial through the capitalisation of Target Co's debts of US$450,000 (S/.1,485,000); as a consequence, Target Co held 65.45% equity interest in Industrial. In General Shareholders' Meeting of Pesquera Victor held on 27 December 2004, the merger by absorption with Industrial was approved, with effectiveness since 31 December 2004. As a result of the merger, the equity interest in Pesquera Victor held by Target Co reduced from 99.67% to 65.75%

2. On 20 July 2005, Target Co acquired additional 34.25% equity interest in Pesquera Victor at a consideration of USD610,000 (S/.1,983,000).

3. In Shareholders' Meeting of Target Co held on 3 November 2004, the merger by absorption with Fantasia was approved, with effectiveness since 4 November 2004.

On 26 October 2006, CFGI acquired the Target Group for a total adjusted consideration of US$99.8 million (approximately HK$778.4 million). The Acquisition was effected through the acquisition of the entire issued share capital of the Target Co from their then shareholders, who are unrelated third parties of which CFGI effectively acquired the operations of 13 fishing vessels and four fishmeal processing plants. Simultaneously, on 31 October 2006, the merger of the Target Group and Procesadora del Carmen S.A. ("Procesadora Carmen"), an entity acquired by CFGI on 4 May 2006 which engaged in extraction of anchovy, into CFGI was approved by the respective shareholders of CFGI, Target Co and Procesadora Carmen in accordance with Peruvian Law and became effective on 1 November 2006. As a result of the merger and since the effective date, all the rights, obligations and operations of the merged entities were assumed by CFGI, the merged entities were then deregistered from the Companies Public Registry in Peru.

Audited financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises incorporated in Peru and were audited by the following certified public accountants registered in Peru:

Name of company	**Financial period**	**Auditors**
Target Co	Year ended 31 December 2004	Pazos, López de Romaña, Rodriguez S.A. (a member firm of BDO)
Pesquera Victor*	Year ended 31 December 2004	Caipoy Asociados S.C. (a member firm of KPMG)
Pesquera Flor*	Year ended 31 December 2004	Caipoy Asociados S.C. (a member firm of KPMG)
Industrial	Year ended 31 December 2004	Ruiz Pinto & Asociados S.C.
Target Co	Year ended 31 December 2005	Caipoy Asociados S.C. (a member firm of KPMG)
CFGI	Period from 16 March 2006 (date of incorporation) to 31 December 2006	Gris, Hernàndez y Asociados S.C. (a member firm of Deloitte Touche Tohmatsu)

* *Audited financial statements for the year ended 31 December 2005 were not prepared because the Target Co has prepared consolidated financial statements for the year ended 31 December 2005 which included the financial information of the respective companies.*

No audited financial statements have been prepared for Fantasia since its date of incorporation as there is no statutory audit requirements to do so.

For the purpose of the report, we have, however, carried out independent audit procedures on the management accounts of Fantasia prepared in accordance with the relevant accounting principles and financial regulations to the enterprises incorporated in Peru for the period from 1 January 2004 to 3 November 2004, in accordance with International Standards on Auditing.

We have examined the audited financial statements or, where necessary, the management accounts (collectively refer to the "Underlying Financial Statements") of the companies comprising the Target Group for the Relevant Periods or since their respective dates of incorporation to 31 December 2006, where there is a shorter period. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Target Group for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements on the basis set out in note 1 of Section II after making such adjustments as we consider appropriate.

The preparation of the Underlying Financial Statements are the responsibility of the directors of those companies who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section II, the Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2004, 31 December 2005 and 31 December 2006 and of the combined results and cash flows of the Target Group for the Relevant Periods.

I. FINANCIAL INFORMATION

Combined income statement

	Notes	2004	2005	2006
		Year ended 31 December		
		S/.'000	S/.'000	S/.'000
Turnover	5	235,916	246,770	255,335
Cost of sales		(181,318)	(186,216)	(165,826)
Gross profit		54,598	60,554	89,509
Other income	6	11,237	644	10,417
Discount on acquisition of subsidiaries	28	9,822	–	–
Discount on acquisition of additional interests in a subsidiary	28	1,991	9,091	–
Selling and distribution costs		(24,972)	(19,030)	(11,794)
Administrative expenses		(7,909)	(6,077)	(15,983)
Other expenses		(8,825)	(15,845)	(27,925)
Result of exposure to inflation		4,547	–	–
Finance costs	7	(10,265)	(8,975)	(7,502)
Profit before taxation	8	30,224	20,362	36,722
Taxation	10	(3,908)	(2,957)	(9,845)
Profit for the year		26,316	17,405	26,877
Attributable to:				
Equity holders of the Target Co		27,478	15,664	26,877
Minority interests		(1,162)	1,741	–
		26,316	17,405	26,877

I. FINANCIAL INFORMATION – continued

Combined balance sheets

	Notes	At 31 December 2004	2005	2006
		S/.'000	S/.'000	S/.'000
Non-current assets				
Property, plant and equipment	13	158,814	151,346	127,330
Intangible assets	14	92	64	–
		158,906	151,410	127,330
Current assets				
Inventories	15	39,384	30,828	30,128
Trade and other receivables	16	34,124	29,484	22,887
Amounts due from related companies	17	825	4,711	–
Tax recoverable		111	238	367
Pledged bank deposits	18	1,396	773	–
Bank balances and cash	18	1,449	813	–
		77,289	66,847	53,382
Current liabilities				
Trade and other payables	19	19,771	16,301	10,529
Amounts due to related companies	20	2,779	669	7,358
Tax liabilities		425	1,318	12,040
Loan from shareholders	21	15,489	15,984	–
Obligations under finance leases	22	8,335	9,843	8,055
Borrowings	23	57,967	54,717	25,280
Provisions	24	–	–	4,311
		104,766	98,832	67,573
Net current liabilities		(27,477)	(31,985)	(14,191)
Total assets less current liabilities		131,429	119,425	113,139
Non-current liabilities				
Trade payables – due after one year		–	858	–
Obligation under finance leases	22	16,106	11,066	9,155
Borrowings – due after one year	23	20,994	8,288	4,119
Deferred taxation	25	7,826	6,379	5,254
		44,926	26,591	18,528
Net assets		86,503	92,834	94,611
Capital and reserves				
Paid-up capital	26	55,602	55,602	30,502
Reserves		21,568	37,232	64,109
Equity attributable to equity holders of the Target Co		77,170	92,834	94,611
Minority interests		9,333	–	–
Total equity		86,503	92,834	94,611

I. FINANCIAL INFORMATION – continued

Combined statement of changes in equity

	Attributable to shareholders of the Target Co					
	Paid-up capital	Legal reserve	(Accumulated losses) Retained profits	Sub-total	Minority interests	Total
	S/.'000	*S/.'000*	*S/.'000*	*S/.'000*	*S/.'000*	*S/.'000*
At 1 January 2004	55,602	1,227	(7,137)	49,692	–	49,692
Profit for the year and total income recognised for the year	–	–	27,478	27,478	(1,162)	26,316
Transfer to legal reserve	–	1,419	(1,419)	–	–	–
Acquisition of subsidiaries	–	–	–	–	11,436	11,436
Acquisition of additional interests in a subsidiary	–	–	–	–	(910)	(910)
Deemed acquisition of a subsidiary	–	–	–	–	(31)	(31)
At 31 December 2004	55,602	2,646	18,922	77,170	9,333	86,503
Profit for the year and total income recognised for the year	–	–	15,664	15,664	1,741	17,405
Transfer to legal reserve	–	531	(531)	–	–	–
Acquisition of additional interests in a subsidiary	–	–	–	–	(11,074)	(11,074)
At 31 December 2005	55,602	3,177	34,055	92,834	–	92,834
Return of capital *(note 27)*	(25,100)	–	–	(25,100)	–	(25,100)
Profit for the year and total income recognised for the year	–	–	26,877	26,877	–	26,877
Transfer to legal reserve	–	2,688	(2,688)	–	–	–
At 31 December 2006	30,502	5,865	58,244	94,611	–	94,611

Pursuant to Corporate Law in Peru, the Target Group is required to allocate not less than 10% of its annual income to the legal reserve. This allocation is required until the reserve equals 20% of paid-up capital. This reserve may only be used to offset future losses.

I. FINANCIAL INFORMATION – continued

Combined cash flow statement

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	*S/.'000*	*S/.'000*	*S/.'000*
OPERATING ACTIVITIES				
Profit before taxation		30,224	20,362	36,722
Adjustments for:				
Interest expense		10,265	8,975	7,502
Discount on acquisition of subsidiaries		(9,822)	–	–
Discount on acquisition of additional interests in a subsidiary		(1,991)	(9,091)	–
Allowance (reversal of allowance) for doubtful debts		2,266	33	(88)
Write-off of inventories		–	–	1,756
Amortisation of intangible assets		8	8	8
Gain on deemed acquisition of a subsidiary		(31)	–	–
Depreciation of property, plant and equipment		19,212	25,040	24,009
Gain on disposal of property, plant and equipment		(1,873)	(14)	(285)
Write off of intangible assets		–	–	61
Result of exposure to inflation		(3,557)	–	–
Operating cash flows before movements in working capital		44,701	45,313	69,685
(Increase) decrease in inventories		(7,820)	8,556	(3,772)
(Increase) decrease in trade and other receivables		(5,466)	4,607	3,252
Increase in amounts due from/to related companies		(2,345)	(5,996)	(4,388)
Increase (decrease) in trade and other payables		1,795	(1,185)	4,029
Cash generated from operations		30,865	51,295	68,806
Interest paid		(10,265)	(8,975)	(7,502)
Tax paid		(4,460)	(5,065)	(3,155)
NET CASH FROM OPERATIONS		16,140	37,255	58,149
INVESTING ACTIVITIES				
Addition to property, plant and equipment		(16,974)	(19,159)	(23,014)
Proceeds on disposal of property, plant and equipment		7,140	6,222	10,046
Addition to intangible assets		(3)	–	(152)
Proceed on disposal of intangible assets		9	20	–
Acquisition of subsidiaries	*28*	(5,070)	–	–
Acquisition of additional interests in a subsidiary		–	(1,983)	–
(Increase) decrease in pledged deposits		(1,396)	623	773
Return of capital	*27*	–	–	(7)
NET CASH USED IN INVESTING ACTIVITIES		(16,294)	(14,277)	(12,354)

I. FINANCIAL INFORMATION – continued

	Year ended 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
FINANCING ACTIVITIES			
Net borrowings raised (repaid)	14,282	(14,315)	(33,599)
Repayment of obligations under finance lease	(16,716)	(8,153)	(7,216)
(Repayment of) advanced from shareholders	(520)	495	(5,786)
Increase (decrease) in bank overdrafts	390	(1,641)	(7)
NET CASH USED IN FINANCING ACTIVITIES	(2,564)	(23,614)	(46,608)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,718)	(636)	(813)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	4,167	1,449	813
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	1,449	813	–
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	1,449	813	–

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Target Co is a private limited company incorporated in Peru. The controlling shareholders of the Target Co are Mr. Victor Lumbroso Cohen and other two family members. The addresses of the registered office and principal place of business of the Target Co. is Amador Merino Reyna 307, Piso 9, San Isidro, Lima Peru. Target Group is principally engaged in the extraction, transformation into fish meal and fish oil and exportation of hydrobiological products for indirect human consumption, as well as in the marketing of these products in the international market ("Target Business"). The Target Co subscribed for 99.67% equity interest in Pesquera Victor and acquired 56.63% in Industrial on 3 February 2004 and 25 June 2004 respectively. On 4 November 2004, Fantasia was merged into the Target Co by absorption. As a result of the merger, all the rights, obligations and operations of the Fantasia were assumed by the Target Co upon the merged entities were formally deregistered from the Companies Public Registry in Peru.

On 26 October 2006, CFGI acquired the entire equity interest in Target Co. As approved by the CFGI shareholders' meeting, the Target Group and Procesadora Carmen were merged with CFGI and the merged entities were deregistered under Peruvian Law on 1 November 2006 (the "Merger").

In preparing the combined financial information, the merger of Fantasia into Target Co by absorption on 4 November 2004 was accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger accounting for common control combination" as both Target Co and Fantasia are under the control of two close family members of Mr. Victor Lumbroso Cohen prior to and after the merger. The subscription of 99.67% interest in Pesquera Victor and acquisition of 56.63% equity interest in Industrial are accounted for using the purchase method.

After the Target Business was merged with CFGI on 1 November 2006, no separate financial statements were prepared for the merged entities of the Target Business. The combined financial information of the Target Business was prepared based on the management accounts of sub-divisions of the Target Business by adding together like items of assets, liabilities, income and expenses that are directly attributable to the Target Business and can be specifically identified.

Expenses which are impracticable to identify specifically are determined on the following basis: (1) administrative expenses, were allocated in accordance with turnover of Target Business (2) income tax expense, were calculated based on the tax rate applicable to the Target Business as if they are separate tax reporting entity. The directors of the Company believe that the method of allocation of the above items presents a reasonable basis of estimating what the Target Business operating results would have been on a stand-alone basis for period from 1 November 2006 to 31 December 2006.

Subsequent to the Merger, the treasury function of the Target Business is centrally managed by CFGI. Cash flows including receipt of sales of goods, settlement of purchases and expenses payable are handled by CFGI and therefore shown as movements in the current account balance with CFGI (included in amount due to related parties) in the financial information.

The combined income statements, combined statements of changes in equity and combined cash flow statements have been prepared to present the results, changes in equity and cash flows of the Target Business throughout the Relevant Periods on the basis that the subscription of 99.67% interest in Pesquera Victor on 3 February 2004 and the acquisition of 56.63% interest in Industrial on 25 June 2004 by the Target Co as well as the subsequent changes in the interests in these two entities were accounted for using the purchase method from the effective acquisition dates.

The combined balance sheets have been prepared to present the assets and liabilities of the Target Business on each balance sheet dates on the basis of the equity interest of the combining entities attributable to the Target Co on each of the balance sheet dates.

The financial information is presented in Peruvian Nuevos Soles (S/.), which is the same as the functional currency of the Target Co.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

2. SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2004, the combined financial information were adjusted to reflect the fluctuations in the purchasing power of Peruvian currency, which enabling the different transactions to be stated in constant monetary units. According to the methodology approved by the Consejo Normativo de Contabilidad (Peruvian Accounting Board) ("CNC"), the historical cost principle prevailed when recording balances, with the adjustment representing the updating of these balances.

The loss of purchasing power of the Peruvian currency in 2004, according to the nationwide wholesale price index as published by the Instituto Nacional de Estadistica e Informatica (National Institute of Statistics) was 4.9%.

In 2005, CNC suspended the comprehensive adjustment on the financial statements to reflect the fluctuations in the purchasing power of the Peruvian currency. It was also established that final balances adjusted for the effects of inflation as at 31 December 2004, would be considered as the historical initial balances at 1 January 2005. For the year ended 31 December 2005 and 2006, the combined financial information have been prepared on historical basis.

The combined financial information have been prepared in accordance with the following accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the combined financial information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and HKFRSs (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 and 1 January 2006. For the purposes of preparing and presenting financial information of the Relevant Periods, the Target Group has adopted all the new HKFRSs throughout the Relevant Periods.

However, the Target Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The management of the Target Co anticipate that the application of these new HKFRSs will have no material impact on how the financial information of the Target Group are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-INT 8	Scope of HKFRS 2[4]
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transaction[7]
HK(IFRIC)-INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 March 2006.
[3] Effective for annual periods beginning on or after 1 January 2009.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

Basis of combination

The financial information incorporates the financial statements of the Target Co and entities (including special purpose entities) controlled by the Target Co (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of combination – continued

Acquisition of subsidiaries during the Relevant Periods are accounted for from the effective date of acquisition by the purchase method of accounting.

All significant intra-group transactions, balances, income and expenses are eliminated on combination.

Minority interests in the net assets of subsidiaries are presented separately from the Target Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Target Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Merger accounting for business combinations involving entities under common control

The combined financial information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or business from the earliest date presented or since the date when the combining entities or business first came under the common control, where this is a shorter period, regardless of the date of common control combination.

The comparative amounts in the combined financial information are presented as if the entities or business had been combined at the previous balance date or when they first came under common control, whichever is the shorter.

Business combinations not involving entities under common control

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Target Group in exchange of control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognized at their fair values at the acquisition date.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill arising on acquisition is recognised as an assets and initially measured at cost, being the excess of the cost of the business combination over the Target Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If , after reassessment, the Target Group's interest in the net fair value of the acquiree's identified assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit and loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Acquisition of additional interest in a subsidiary

Additional interests in subsidiaries are measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries and any excess of the net assets acquired over the consideration are accounted for as discount on acquisition of additional interests in a subsidiary.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when the goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than freehold land and construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses. Plant and machinery are stated in the balance sheet at their revalued amount, being the fair value, at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than freehold land and construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	3%
Plant and machinery	10% to 25%
Furniture, fixtures and equipment	10% to 25%
Motor vehicles	20%

Freehold land is carried at cost, less any recognised impairment loss.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less any subsequent accumulated amortisation and any accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to the present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated cost necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets

The Target Group's financial assets are loans and receivables. The accounting policies adopted in respect of loans and receivables are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Target Co are recorded at the proceeds received, net of direct issue costs.

The Target Group's financial liabilities including, trade and other payables, amounts due to related companies, loan from shareholders and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the consolidated balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration is recognised in profit or loss.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment

At each balance sheet date, the Target Group reviews the carrying amounts of its assets to determine whether there is any indication that assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Target Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes income statement items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Liabilities for deferred tax is generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

The carrying amount of assets for deferred tax and employee's profit sharing is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that is expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the deferred tax and employee's profit sharing are also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

Payments to the defined contribution retirement scheme are charged as an expenses as they fall due.

Provisions

Provisions are recognised when the Target Group has a present obligation as a result of a past event, and it is probable that the Target Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Target Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

Estimation allowance for doubtful receivables

The Target Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and other receivables and amounts due from related companies. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the use of judgment and estimates. Where the expectation on the recoverability of trade receivables is different from the original estimate, such difference will impact carrying value of trade receivables and doubtful receivables expenses in the years in which such estimate has been changed.

4. FINANCIAL INSTRUMENTS

4a. Financial risk management objectives and policies

Credit risk

The Target Group's maximum credit risk exposure is primarily attributable to its pledged deposits, bank balances, trade and other receivables and amounts due from related companies. Cash is placed with credit worthy financial institutions. The trade and other receivables and amounts due from related companies presented in the balance sheet are net of allowance for doubtful receivables, if any, estimated based on prior experience.

The credit risk for pledged deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

The Target Group manages credit risk by arranging for credit insurance when appropriate.

The Target Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Interest rate risk

The Target Group is exposed to interest rate risk through the impact of rate of changes on interest-bearing bank borrowings, amounts due to related companies and loans from shareholders. The Target Group will continue to maintain a reasonable mix of floating rate and fixed rate borrowings and take actions to hedge against any foreseeable interest rate exposure, if necessary.

Foreign currency risk

The Target Group has exposure to foreign currency risk on the Target Group's sales denominated in currencies other than the functional currencies of the respective entities and are managed as far as possible by natural hedges of matching foreign currency assets with foreign currency liabilities. This is regularly monitored. The Target Group does not entered into the financial derivative instruments to hedge its foreign currency risk. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

4. FINANCIAL INSTRUMENTS – continued

4a. Financial risk management objectives and policies – continued

Liquidity risk

The Target Group has sufficient funds to finance its ongoing working capital requirements, and when necessary, draws on its available credit facilities.

Management is aware that reducing the liquidity risk implies maintaining sufficient cash amounts and the availability of financial resources through adequate number of committed credit facilities, as well as the capacity to close positions in the market. Due to the dynamic nature of the business, flexibility in financing is maintained through the availability of agreed credit lines.

In addition, the financial information have been prepared on a going concern basis because Pacific Andes International Holdings Limited, the ultimate holding company has agreed to provide adequate funds to enable the Target Group to meet in full its financial obligations as they fall due for the foreseeable future.

4b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices form observable current market transaction.

The management consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold after allowances for returns and trade discount.

	Year ended 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Sales of goods	233,929	242,332	248,421
Others	1,987	4,438	6,914
	235,916	246,770	255,335

The Target Group operates predominately in Peru, and its sole principal activity is extraction, transformation into fish meal and fish oil and exportation of hydrobiological products for indirect human consumption, as well as in the marketing of these products in the international market. Accordingly, no segment information by business and geographical segment is presented.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

6. OTHER INCOME

	Year ended 31 December		
	2004	2005	2006
	S/.'000	S/.'000	S/.'000
Compensation for insurance coverage	3,156	–	33
Gain on disposal of property, plant and equipment	1,873	14	285
Exchange gains, net	3,809	–	7,948
Sundry income	2,399	630	2,151
	11,237	644	10,417

7. FINANCE COSTS

	Year ended 31 December		
	2004	2005	2006
	S/.'000	S/.'000	S/.'000
Interest on borrowings wholly repayable within five years	6,337	5,748	5,046
Finance charges on obligations under finance leases	3,366	2,094	1,764
Interest on loan from shareholders	562	1,133	692
	10,265	8,975	7,502

8. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2004	2005	2006
	S/.'000	S/.'000	S/.'000
Profit before taxation has been arrived at after charging (crediting):			
Allowance (reversal of allowance) for doubtful debts	2,266	33	(88)
Auditors' remuneration	33	43	234
Depreciation of property, plant and equipment	19,212	25,040	24,009
Write-off of inventories	–	–	1,756
Write-off of intangible assets	–	–	61
Amortisation of intangible assets	8	8	8
Exchange losses, net	–	3,090	–
Operating lease payments in respect of rented premises	947	821	891
Contingent rent paid in respect of a processing plant	2,123	1,483	941
Cost of inventories included in cost of sales	147,174	134,942	106,594
Staff costs			
Salaries and other benefits costs	12,801	16,603	17,074
Retirement benefits scheme contributions	442	957	660
	13,243	17,560	17,734

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The Target Group does not have directors and no directors' emoluments was paid during the Relevant Periods.

(b) Employees

The five highest paid individuals of the Target Group for the Relevant Periods are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Salaries and benefits-in-kind	330	356	457
Retirement benefits scheme contributions	44	47	59
	374	403	516

During the Relevant Periods, no emolument was paid by the Target Group to the five highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

10. TAXATION

	Year ended 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
The charge comprises:			
Peru Income Tax	4,091	4,404	10,970
Deferred tax *(Note 25)*	(183)	(1,447)	(1,125)
	3,908	2,957	9,845

Peru Income Tax is calculated at 30% of the net taxable profits for the three years ended 31 December 2006.

In accordance with Legislative Decree 945 dated 23 December 2003, as from fiscal year 2004, the Peru Income Tax rate for domiciled legal entities is 30%.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

10. TAXATION – continued

Tax charge for the year can be reconciled to the profit before taxation as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Profit before taxation	30,224	19,826	36,722
Peru Income Tax rates	30%	30%	30%
Tax at Peru Income Tax	9,067	5,948	11,017
Tax effect of expenses not deductible	2,389	1,760	1,383
Tax effect of income not taxable	(7,450)	(4,711)	(2,555)
Tax effect of tax loss not recognised	40	–	–
Utilisation of tax loss previously not recognised	(138)	(40)	–
Tax charge for the year	3,908	2,957	9,845

11. EARNINGS PER SHARE

Earnings per share of the Target Group is not presented herein as such information is not considered meaningful in the context of this report.

12. DIVIDENDS

No dividend has been paid during the Relevant Periods.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	S/.'000	*S/.'000*	*S/.'000*	*S/.'000*	*S/.'000*	*S/.'000*	*S/.'000*
COST							
At 1 January 2004	5,989	10,027	191,086	736	2,020	2,725	212,583
Additions	9	57	15,335	1,483	319	–	17,203
Acquisition of subsidiaries	1,950	2,779	23,177	16	–	–	27,922
Disposal	(9)	–	(5,783)	–	–	–	(5,792)
At 31 December 2004	7,939	12,863	223,815	2,235	2,339	2,725	251,916
Addition	–	403	20,787	336	179	2,075	23,780
Reclassification	–	–	200	(193)	–	(7)	–
Disposal	–	(27)	(4,822)	(179)	(55)	(1,576)	(6,659)
At 31 December 2005	7,939	13,239	239,980	2,199	2,463	3,217	269,037
Additions	294	524	24,391	301	978	43	26,531
Return of capital *(note 27)*	(218)	–	(22,196)	(941)	(1,357)	(2)	(24,714)
Reclassification	–	264	205	434	202	(1,105)	–
Disposal	(20)	–	(17,615)	(124)	(418)	(1,098)	(19,275)
At 31 December 2006	7,995	14,027	224,765	1,869	1,868	1,055	251,579
DEPRECIATION AND IMPAIRMENT							
At 1 January 2004	–	1,351	71,340	441	1,283	–	74,415
Provided for the year	–	352	18,474	151	235	–	19,212
Eliminated on disposal	–	–	(525)	–	–	–	(525)
At 31 December 2004	–	1,703	89,289	592	1,518	–	93,102
Provided for the year	–	384	24,205	222	229	–	25,040
Reclassification	–	–	5	(5)	–	–	–
Eliminated on disposal	–	–	(406)	(30)	(15)	–	(451)
At 31 December 2005	–	2,087	113,093	779	1,732	–	117,691
Provided for the period	–	385	22,969	177	478	–	24,009
Return of capital *(note 27)*	–	–	(6,675)	(454)	(808)	–	(7,937)
Eliminated on disposal	–	–	(9,310)	(49)	(155)	–	(9,514)
At 31 December 2006	–	2,472	120,077	453	1,247	–	124,249
CARRYING VALUES							
At 31 December 2004	7,939	11,160	134,526	1,643	821	2,725	158,814
At 31 December 2005	7,939	11,152	126,887	1,420	731	3,217	151,346
At 31 December 2006	7,995	11,555	104,688	1,416	621	1,055	127,330

The buildings are situated on freehold land in Peru.

The carrying values of plant and machinery held under finance leases are S/.46,766,000, S/.37,747,000 and S/.40,329,000 as at 31 December 2004, 31 December 2005 and 31 December 2006 respectively.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

14. INTANGIBLE ASSETS

	S/.'000
COST	
At 1 January 2004	153
Addition	3
Disposal	(15)
At 31 December 2004	141
Disposals	(27)
At 31 December 2005	114
Addition	152
Return of capital *(note 27)*	(147)
Write off	(119)
At 31 December 2006	–
AMORTISATION	
At 1 January 2004	47
Provided for the year	8
Eliminated on disposals	(6)
At 31 December 2004	49
Provided for the year	8
Eliminated on disposals	(7)
At 31 December 2005	50
Provided for the year	8
Write off	(58)
At 31 December 2006	–
CARRYING AMOUNTS	
At 31 December 2004	92
At 31 December 2005	64
At 31 December 2006	–

Intangible assets represent the Target Group's software of telecommunication system.

During 2006, the Target Group carried out a review of the recoverable amounts of its intangible assets by management. The review led to a write off of intangible assets amounted to S/.61,000 in the income statement.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

15. INVENTORIES

	At 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Inventories, consist of the following:			
Raw materials	229	446	–
Work in process	–	–	430
Finished goods	34,680	24,664	23,305
Merchandise	668	828	–
Supplies	3,610	4,503	8,149
Inventories in transit	197	387	–
Provision for obsolescence of inventories	–	–	(1,756)
	39,384	30,828	30,128

16. TRADE AND OTHER RECEIVABLES

The Target Group maintains a defined credit policy, the Target Group normally allows an average credit period of 30 days to its trade customers.

The aged analysis of trade receivables at the respective balance sheet dates are as follows:

	At 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Trade receivables			
Less than 30 days	20,947	15,403	15,352
31 – 60 days	601	971	–
Over 60 days	3,331	3,506	3,456
	24,879	19,880	18,808
Less: allowances	(3,805)	(3,528)	(3,456)
	21,074	16,352	15,352
Other receivables	13,050	13,132	7,535
	34,124	29,484	22,887

The management considered that the carrying amounts of trade and other receivables approximate their fair values.

17. AMOUNTS DUE FROM RELATED COMPANIES

The amounts are unsecured, interest free and repayable on demand. The shareholders of Target Co have beneficial interests in the related companies.

The management consider that the amounts due from related companies approximate their fair values.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

18. BANK BALANCES/PLEDGED BANK DEPOSITS

Bank balances/pledged bank deposits

Bank balances carry interest at market rates which range from 1.75% to 5.16%. The pledged deposits have been placed in designated banks as part of the securities for banking facilities granted to the Target Group. The deposits carry no interest as at 31 December 2004, 31 December 2005 and 31 December 2006.

19. TRADE AND OTHER PAYABLES

The aged analysis of the trade payables at the respective balance sheet dates is as follows:

	At 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Trade payables			
Less than 30 days	9,081	9,567	3,949
31 – 60 days	3,309	–	–
	12,390	9,567	3,949
Other payables	7,381	6,734	6,580
	19,771	16,301	10,529

The management consider that the carrying amounts of trade and other payables approximate their fair value.

20. AMOUNTS DUE TO RELATED COMPANIES

At 31 December 2004 and 31 December 2005, the amounts are unsecured, interest-free and repayable on demand. The shareholders of the Target Group have beneficial interests in the related companies.

The amount due to related company as at 31 December 2006 represents the current account balance with CFGI. With effective from 1 November 2006, the treasury function of the Target Business is centrally managed by CFGI and accordingly cash flows including receipts from sales of goods, settlement of purchases and expenses payable are handled by CFGI and therefore included in amounts due to related companies.

The management consider the amounts due to related companies approximate their fair values.

21. LOANS FROM SHAREHOLDERS

The loans are unsecured, bears interests at 9% per annum at 31 December 2004 and 31 December 2005 and repayable on demand. The management consider the loans from shareholders approximate its fair value.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

22. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease terms are ranged from two to five years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 7.75% to 12.7%.

	Minimum lease payments At 31 December			Present value of minimum lease payments At 31 December		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*	*S/.'000*	*S/.'000*	*S/.'000*
Within one year	10,140	11,408	9,140	8,335	9,843	8,055
In more than one year but not more than two years	9,688	7,695	4,761	8,456	7,046	4,177
In more than two years but not more than three years	6,204	3,006	2,910	5,788	2,771	2,611
In more than three years but not more than four years	1,754	1,061	2,102	1,657	999	1,984
In more than four years but not more than five years	208	258	392	205	250	383
	27,994	23,428	19,305	24,441	20,909	17,210
Less: future finance charges	(3,553)	(2,519)	(2,095)	–	–	–
Present value of lease obligations	24,441	20,909	17,210	24,441	20,909	17,210
Less: Amount due within one year shown under current liabilities				(8,335)	(9,843)	(8,055)
Amount due after one year				16,106	11,066	9,155

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The fair values of the Group's finance lease obligations determined based on the present value of the estimated future cash flows discounted using prevailing market rate at the respective balance sheet dates approximate to their carrying amounts.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

23. BORROWINGS

	At 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Bank loans	64,783	52,173	29,399
Other loans	12,530	10,825	–
Bank overdrafts	1,648	7	–
	78,961	63,005	29,399
Analysed as:			
Secured	14,364	12,206	29,399
Unsecured	64,597	50,799	–
	78,961	63,005	29,399

The maturity of bank borrowings are as follows:

	At 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Within one year	57,967	54,717	25,280
In the second year	13,063	2,347	2,231
In the third year	2,246	2,424	1,888
In the fourth year	2,320	3,517	–
In the fifth year	3,365	–	–
	78,961	63,005	29,399
Less: Amount due within one year shown under current liabilities	(57,967)	(54,717)	(25,280)
Amount due after one year	20,994	8,288	4,119

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

23. BORROWINGS – continued

The fair values of the Target Group's borrowings approximate to the carrying amounts.

Bank overdrafts carry interest at market rates which range from 3% to 55.55%.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Target Group's bank loans and other loans are as follows:

	Year ended 31 December					
	Amount	2004	Amount	2005	Amount	2006
Effective interest rate:						
Fixed-rate borrowings	S/.25,521,000	7.5% to 12.7%	S/.22,489,000	7.5% to 12.7%	S/.7,723,000	9% to 10%
Variable-rate borrowings	S/.51,792,000	1.3% to 3.1%	S/.40,509,000	4.0% to 5.6%	S/.21,676,000	6.9%

The Target Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	USD
As at 31 December 2006	9,196,000
As at 31 December 2005	15,209,000
As at 31 December 2004	20,931,000

The Target Group obtained new loans in the amount of US$50,494,000, US$46,695,000, US$31,606,000 for the year ended 31 December 2004, 31 December 2005 and 31 December 2006 respectively. The loans bear interest at market rates and will be repayable in 2006. The proceeds were used to finance the acquisition of property, plant and equipment.

24. PROVISIONS

The Target Group is a party to legal processes arising in the normal course of its activities. Of these processes, the most significant as of 31 December 2006 relate to labour suits with exemployees, environmental suits, and others, claiming an amount of approximately S/.4,311,000. As of 31 December 2006, the Target Group has recorded a provision for suits and administrative proceedings for S/.4,311,000 relating to law suits where the probability of a favourable outcome for the Target Group is low.

25. DEFERRED TAXATION

The followings are the major deferred tax liabilities and assets recognised and movements thereon for the year:

	Fair value adjustments on business combination	Finance lease, net of depreciation	Others	Total
	S/.'000	*S/.'000*	*S/.'000*	*S/.'000*
At 1 January 2004	3,978	4,031	–	8,009
Charge (credit) to income statements for the year	(670)	487	–	(183)
At 31 December 2004	3,308	4,518	–	7,826
Credit to income statements for the year	(657)	(790)	–	(1,447)
At 31 December 2005	2,651	3,728	–	6,379
Charge (credit) to income statements for the year	(1,776)	1,303	(652)	(1,125)
At 31 December 2006	875	5,031	(652)	5,254

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

26. PAID-UP CAPITAL

For the purpose of this report, the paid-up capital as at 31 December 2004 represented the issued and fully paid share capital of Target Co and Fantasia.

	Number of shares	Amount
		S/.'000
Ordinary shares of S/.1 each		
Authorised:		
At 31 December 2004, 31 December 2005 and 31 December 2006	55,602,000	55,602
Issued and fully paid:		
At 31 December 2004 and 31 December 2005	55,602,000	55,602
Return of capital *(note 27)*	(25,100,000)	(25,100)
At 31 December 2006	30,502,000	30,502

27. RETURN OF CAPITAL

A distribution of certain assets and liabilities of the Target Group in favour of the then shareholders was approved by General Shareholders' Meeting on 30 September 2006. Effective from 1 October 2006, certain assets and liabilities of the Target Group were returned to the then shareholders at their respective carrying amounts by way of capital distribution.

A summary of the assets and liability in relation to the return of capital is as follow:

	S/.'000
Property, plant and equipment	16,777
Intangible assets	147
Inventories	2,716
Trade and other receivables	3,434
Amounts due from related companies	15,788
Bank balances and cash	7
	38,869
Trade and other payables	3,571
Loan from shareholders	10,198
	13,769
	25,100
Net cash outflow arising on return of capital:	
Bank balances and cash returned	(7)

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

28. ACQUISITION OF SUBSIDIARIES/ADDITIONAL INTERESTS IN A SUBSIDIARY

On 3 February 2004, the Target Group subscribe 99.67% of shares in Pesquera Victor, a company incorporated in Peru by capitalisation of debt of S/.300,000. This transaction has been accounted for using the purchase method of accounting.

On 25 June 2004, Target Co acquired 56.63% equity interest in Industrial at a consideration of US$1,473,000 (S/.5,112,000). This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Carrying amounts before combination	**Adjustments**	**Fair value**
	S/.'000	*S/.'000*	*S/.'000*
Property, plant and equipment	17,653	10,269	27,922
Inventories	844	–	844
Trade and other receivables	5,554	–	5,554
Bank balances and cash	42	–	42
Trade and other payables	(4,530)	–	(4,530)
Borrowings	(3,462)	–	(3,462)
			26,370
Discount on acquisition			(9,822)
Minority interests			(11,436)
Total consideration, satisfied by cash			5,112
Net cash outflow arising on acquisition:			
Cash consideration			(5,112)
Bank balances and cash acquired			42
			(5,070)

Industrial and Pesquera Victor contributed S/.494,000 revenue and a loss of S/.1,166,000 to the Target Group's profit before taxation for the period between the date of acquisition and 31 December 2004.

Subsequent to this acquisition, Target Co acquired an additional 4.7% equity interest in Industrial through the capitalisation of Target Co's debts of US$413,000 (S/.1,408,000). In General Shareholders' Meeting of Industrial held on 10 December 2004, Target Co acquired an additional 4.03% issued capital in Industrial through the capitalisation of Target Co's debts of US$450,000 (S/.1,485,000); as a consequence, Target Co held 65.45% issued capital in Industrial. These acquisitions result in a discount on acquisition of additional interests in a subsidiary of S/.1,991,000.

In General Shareholders' Meeting of Pesquera Victor held on 27 December 2004, the merger by absorption with Industrial was approved, with effectiveness since 31 December 2004. As a result of the merger, Target Co held 65.75% of Pesquera Victor (after merged with Industrial).

On 20 July 2005, Target Co acquired an additional 34.25% equity interest in Pesquera Victor at a consideration of US$610,000 (S/.1,983,000). Pesquera Victor became a wholly owned subsidiary of Target Co thereafter. This acquisition results in a discount on acquisition of additional interests in a subsidiary of S/.9,091,000.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

29. OPERATING LEASES ARRANGEMENTS

The Target Group as lessee

At the balance sheet date, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	At 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Within one year	79	408	–
In the second to fifth years inclusive	–	14	–
	79	422	–

Operating lease payments represent rentals payable by the Target Group for certain of its production plant, dormitory and office.

Lease are negotiated for terms of two to three years throughout the lease term.

Contingent rental expenses were calculated based on the excess of certain percentages of turnover of the relevant operation that occupied the properties over the fixed portion of the monthly rentals.

30. PLEDGE OF ASSETS

At the balance sheet date, the Target Group had pledged the following assets to banks as securities against banking facilities granted to the Target Group:

	At 31 December		
	2004	**2005**	**2006**
	S/.'000	*S/.'000*	*S/.'000*
Property, plant and equipment	10,424	9,332	30,321
Pledged bank deposits	1,396	773	–
Inventories	34,680	24,664	22,545
	46,500	34,769	52,866

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS – continued

31. RELATED PARTY TRANSACTIONS

During the year, the Target Group had entered the following significant transactions with related parties. Mr. Victor Lumbroso Cohen, the former shareholder of the Target Group have beneficial interest in the related parties:

	2004	2005	2006
	S/.'000	*S/.'000*	*S/.'000*
Sales of fuel and supplies	2,776	3,315	4,224
Purchases of fish	12,694	13,049	11,283
Purchases of fixed assets	4	–	2,314
Sales of fixed assets	105	23	121
Operating lease expenses	372	466	–
Interest on loan from shareholders	562	1,133	692

After the merger of the Target Group with CFGI on 1 November 2006, the Target Group had entered the following transactions with CFGI:

	2004	2005	2006
	S/.'000	*S/.'000*	*S/.'000*
Sales of fuel and supplies	–	–	3,298
Purchase of fish	–	–	4,831

The terms of the amounts due from/to related parties are set out in notes 17 and 20.

III. DIRECTORS' REMUNERATIONS

The Target Group does not have directors and no directors' emoluments was paid during the Relevant Periods.

IV. ULTIMATE HOLDING COMPANY

At the date of this report, the management of the Target Co considers Pacific Andes International Holdings Limited, a company incorporated in the Bermuda, to be the ultimate holding company of the Target Co.

V. SUBSEQUENT EVENTS

No other significant events took place subsequent to 31 December 2006.

VI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Target Group have been prepared in respect of any period subsequent to 31 December 2005.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

I. PRO FORMA FINANCIAL INFORMATION

Unaudited pro forma balance sheet of the Enlarged Group

Set out below is an illustrative and unaudited pro forma balance sheet of the Enlarged Group as at 30 September 2006 which has been prepared for the purpose of illustration as if the Acquisition had been completed on 30 September 2006.

The unaudited pro forma balance sheet of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 September 2006, and the audited consolidated balance sheet of the Peruvian Companies as at 31 December 2006 as extracted from Appendix II to this circular, after making pro forma adjustments that are necessary.

The unaudited pro forma balance sheet of the Enlarged Group has been prepared to provide the unaudited pro forma financial information of the Enlarged Group as if the Acquisition had been completed on 30 September 2006. As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 September 2006 and at any future date.

For the purpose of presenting the unaudited pro forma balance sheet of the Enlarged Group, the audited consolidated balance sheet of the Peruvian Companies as at 31 December 2006 is translated at the exchange rate of S/.1 = HK$2.45.

Unaudited Pro Forma Balance Sheet of the Enlarged Group

	The Group as at 30 September 2006 HK$'000 (Unaudited)	The Peruvian Companies as at 31 December 2006 Sl.'000 (Audited)	The Peruvian Companies as at 31 December 2006 HK$'000 Equivalent	Sub total HK$'000	Unaudited Pro forma adjustments HK$'000 (Unaudited)	Notes	Pro Forma Enlarged Group Total HK$'000 (Unaudited)
ASSETS AND LIABILITIES							
Non-current assets							
Property, plant and equipment	757,725	127,330	311,959	1,069,684	–		1,069,684
Investment properties	109,333	–	–	109,333	–		109,333
Prepaid lease payment	28,045	–	–	28,045	–		28,045
Goodwill	137,361	–	–	137,361	546,627	*b*	683,988
Deferred charter hire	800,670	–	–	800,670	–		800,670
Interest in associates	2,092	–	–	2,092	–		2,092
Loan to jointly-controlled entity	11,050	–	–	11,050	–		11,050
Loan receivables	33,050	–	–	33,050	–		33,050
Intangible assets	67,683	–	–	67,683			67,683
Deposit paid for acquisition of property	20,666	–	–	20,666	–		20,666
Deposit paid for acquisition of subsidiaries	101,400	–	–	101,400	(101,400)	*a*	–
Other long term receivables	928	–	–	928	–		928
	2,070,003	127,330	311,959	2,381,962	445,227		2,827,189

	The Group as at 30 September 2006 HK$'000 (Unaudited)	The Peruvian Companies as at 31 December 2006 SI.'000 (Audited)	The Peruvian Companies as at 31 December 2006 HK$'000 Equivalent	Sub total HK$'000	Unaudited Pro forma adjustments HK$'000 (Unaudited)	Notes	Pro Forma Enlarged Group Total HK$'000 (Unaudited)
Current assets							
Inventories	1,869,596	30,128	73,815	1,943,411	–		1,943,411
Trade, bills and other receivables	1,303,147	22,887	56,073	1,359,220	–		1,359,220
Trade receivables with insurance coverage	283,306	–	–	283,306	–		283,306
Trade receivables from associates	141,229	–	–	141,229	–		141,229
Amounts due from associates	23,746	–	–	23,746	–		23,746
Amounts due from a jointly controlled entity	864	–	–	864	–		864
Tax recoverable	861	367	899	1,760	–		1,760
Pledge deposits	885	–	–	885	–		885
Bank balances and cash	395,811	–	–	395,811	–		395,811
	4,019,445	53,382	130,787	4,150,232	–		4,150,232
Current liabilities							
Trade and other payables	(440,532)	(10,529)	(25,796)	(466,328)	–		(466,328)
Amount due to an associate	(7,406)	–	–	(7,406)	–		(7,406)
Amount due to related companies	–	(7,358)	(18,027)	(18,027)	–		(18,027)
Taxation	(23,684)	(12,040)	(29,498)	(53,182)	–		(53,182)
Obligation under finance lease – due with one year	(1,536)	(8,055)	(19,735)	(21,271)	–		(21,271)
Bank advances drawn on discounted trade receivables with insurance coverage and discounted bills	(276,388)	–	–	(276,388)	–		(276,388)
Bank borrowings – due within one year	(1,366,868)	(25,280)	(61,936)	(1,428,804)	(677,024)	*a*	(2,105,828)
Provisions	–	(4,311)	(10,562)	(10,562)	–		(10,562)
	(2,116,414)	(67,573)	(165,554)	(2,281,968)	(677,024)		(2,958,992)
Net current assets (liabilities)	1,903,031	(14,191)	(34,767)	1,868,264	(677,024)		1,191,240
Total assets less current liabilities	3,973,034	113,139	277,192	4,250,226	(231,797)		4,018,429

	The Group as at 30 September 2006 HK$'000 (Unaudited)	The Peruvian Companies as at 31 December 2006 Sl.'000 (Audited)	The Peruvian Companies as at 31 December 2006 HK$'000 Equivalent	Sub total HK$'000	Unaudited Pro forma adjustments HK$'000 (Unaudited)	Notes	Pro Forma Enlarged Group Total HK$'000 (Unaudited)
Non-current liabilities							
Obligation under finance lease – due after one year	(7,144)	(9,155)	(22,430)	(29,574)	–		(29,574)
Borrowings – due after one year	(741,467)	(4,119)	(10,092)	(751,559)	–		(751,559)
Amount due to joint venture partner of a jointly controller entity	(11,050)	–	–	(11,050)	–		(11,050)
Deferred taxation	(48,477)	(5,254)	(12,873)	(61,350)	–		(61,350)
	(808,138)	(18,528)	(45,395)	(853,533)	–		(853,533)
Net assets	3,164,896	94,611	231,797	3,396,693	(231,797)		3,164,896
EQUITY							
Capital and reserves							
Share capital	(120,173)	(30,502)	(74,730)	(194,903)	74,730	*b*	(120,173)
Share premium and reserves	(1,871,673)	(64,109)	(157,067)	(2,028,740)	157,067	*b*	(1,871,673)
Equity attributable to equity holders of the Company	(1,991,846)	(94,611)	(231,797)	(2,223,643)	231,797		(1,991,846)
Minority interests	(1,173,050)	–	–	(1,173,050)	–		(1,173,050)
Total equity	(3,164,896)	(94,611)	(231,797)	(3,396,693)	231,797		(3,164,896)

Notes:

a. The adjustment reflects the consideration payable by the CFGL and its subsidiaries (the "CFGL Group") of US$99.8 million (approximately HK$778.4 million) in cash (of which HK$101.4 million has been paid as deposit for acquisition) upon acquisition of the Peruvian Companies. The balance of the consideration for the acquisition of HK$677.0 million is financed by borrowings.

b. The adjustment represents the elimination of the CFGL Group's equity interest in the Peruvian Companies and reflect goodwill arising from the Acquisition.

For the purposes of presenting pro forma balance sheet, the acquisition of the Peruvian Companies by CFGL Group was assumed to be completed on 30 September 2006 and with reference to the net assets value of the Peruvian Companies as at 31 December 2006:

	HK$'000
Total consideration	778,424
Net assets of the Peruvian Companies acquired	231,797
Goodwill	546,627

Since the actual fair value of the identifiable assets and liabilities of the Peruvian Companies at the date of Completion may be substantially different from their carrying amount as at 31 December 2006, the actual goodwill arising from the Acquisition may be different from the estimated goodwill as shown above.

II. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF PACIFIC ANDES INTERNATIONAL HOLDINGS LIMITED

The following is the text of the relevant reports, prepared for inclusion in this circular, from the reporting accountants of Pacific Andes International Holdings Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Accountants' report on unaudited pro forma financial information of the Enlarged Group

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

16 April 2007

The Board of Directors
Pacific Andes International Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Pacific Andes International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition of the entire share capital of Alexandra S.A.C. and its subsidiaries might have affected the financial information presented, for inclusion in Section I of Appendix III to the circular dated 16 April 2007 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 167 to 171 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2006, or any future date.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

III. INDEBTEDNESS

Statement of Indebtedness

As at the close of business on 31 January 2007, being the latest practicable date for the purpose of this indebtedness prior to the printing of this circular, the Enlarged Group had the borrowings amounting to approximately HK$5,625.8 million, details of which are as follows:

Borrowings

The following table illustrates the Enlarged Group's bank and other borrowings as at 31 January 2007:

Bank and other borrowings comprise:

	HK$'000
Finance leases	46,989
Trust receipt loans	1,241,301
Other term loans	1,263,367
Amount due to joint venture partner of a jointly controlled entity	11,050
Syndicated term loans	728,000
Mortgage loans	95,773
Bank overdrafts	22,403
Bank advances drawn on discounted trade receivable with insurance coverage and discounted bills	461,917
Senior notes payable	1,755,000
	5,625,800
Analysed as:	
Secured	1,091,347
Unsecured	4,534,453

As at 31 January 2007, the Enlarged Group has pledged land and buildings and investment properties with aggregate carrying values of approximately HK$309.1 million and HK$29.5 million respectively, as collateral for mortgage loans granted to the Group by certain banks.

The property, plant and equipment and inventories of a subsidiary in United States of HK$2.7 million and HK$232.3 million, respectively, were pledged as security for general banking facilities arranged for that subsidiary.

In addition, shares of certain subsidiaries were pledged as securities for revolving inventory financing facilities and syndicated term loan obtained from banks.

Contingent liabilities and guarantees

Feoso (Singapore) Private Limited ("Feoso") has issued a writ of summons against the Company and two employees of the Company (the "Employees") and Ever Bright Energy Co. Ltd. ("Ever Bright") on 21 June 2005 in relation to a dispute over the supply of oil products by Ever Bright to Feoso in November 1999. The amount claimed in the writ is in the sum of approximately US$3,709,000 (approximately HK$28,930,000) plus interest, cost and other ancillary relief. Ever Bright was formerly an indirect wholly-owned subsidiary of PAH. The Group disposed of its interest in Ever Bright on 31 January 2000.

The Company's legal advisors are still at the preliminary stage of investigating the claim and in the process of instructing counsel to advise on the matter. However, their preliminary view is that the Company has a good defence and the case is likely to be resolved in the Company's favour.

In the opinion of the directors, the Company has valid grounds to defend the claim and as such, no provision has been made by the Group as at 31 March 2006.

Disclaimer

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 31 January 2007.

IV. SUFFICIENCY OF WORKING CAPITAL

The Board is of the opinion that, after taking into account the financial resources available to the Enlarged Group, including the internally generated funds and the present available banking facilities, the Enlarged Group will have sufficient working capital for its normal business for the next twelve months from the date of this circular.

Set forth below is the text of a letter from Invalsa Ingeniería y Valuaciones S.A., independent valuers, in relation to the valuation of 15 fishing vessels acquired from Alexandra and its subsidiaries and Procesadora del Carmen S.A. and four fishmeal processing plants of Alexandra and its subsidiaries.

[Letterhead of Invalsa Ingenieria y Valuaciones S.A.]

Lima, 2 November 2006

Gentlemen
Pacific Andes International Holdings Limited
China Fishery Group Limited

Received instructions:

We received instructions to evaluate:

A) the properties of Alexandra S.A.C. and its subsidiaries, Pesquera Victor S.A.C. and Empresa Pesquera Flor de Ilo S.R.L., including four (04) fishmeal and fish oil processing plants and thirteen (13) fishing vessels, located on the Peruvian coast; and

B) the two (02) fishing vessels of Procesadora del Carmen S.A., located on the Peruvian coast.

A) Properties of Alexandra S.A.C.

We confirm that as part of the valuation process, we physically inspected the fishmeal plants and the fishing vessels, in addition to making market investigations as we have deemed necessary or desirable. We have relied on the information provided by Alexandra S.A.C. management to the extent that we can express to you our opinion of the fair market value of the described properties of Alexandra S.A.C. as of 30 September 2006.

Basis of Valuation:

The valuations of the four (04) fishmeal plants and the thirteen (13) vessels are primarily based on a determination of the fair market value for each asset.

The fair market value is defined as "the estimated amount for which a property would have been exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing, wherein in the parties had each acted knowledgeably, prudently and without compulsion".

Property Categorization:

In the course of our evaluation, the properties of Alexandra S.A.C. have been categorized as follows:

Group I	:	Fishing vessels
Group II	:	Fishmeal plants (which includes the plants, machinery and equipment and buildings and real estate)

Valuation Methodology:

The valuation methodology applied is codified in the National Regulation of Appraisals, R.M. No. 098-2006-Vivienda, dated 8 May 2006, in its titles V, Chapters a, b, c, d, e and f, as well as in the International Norms of Valuation of IVSC (International Valuation Standards Committee).

In essence, we have applied replacement value techniques supplemented with reference to comparative transactions. We considered the sales of similar properties or substitutes, as well as relative data from the market place, and established an estimated value incorporating a compiled list of value offers.

Such valuation techniques are those recognized by the market as the most relevant and they are commonly relied upon for bank financing.

Valuation Assumptions:

Our valuations assume that the properties can be sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could distort the values of the properties. In addition, no account has been taken of any option or right whatsoever concerning or affecting the sale of the properties. Nor does our analysis assume a forced sale situation.

Furthermore, our valuation could be affected if there is a change in the business, economic or political environment in Peru or worldwide. In determining the value of the properties, we have made the following key assumptions:

– That the PRODUCE MINISTRY does not dismantle regulations that currently prohibit the issuance of new licenses to build new vessels and establish new fishmeal and fish oil production plants.

– That there is no long term material increase or decrease of the biomass (anchovies).

– That international prices of fishmeal and fish oil products or substitutes do not fall.

– That there is no decrease of the operational capacity of the vessels or industrial plants (machinery) because of insufficient maintenance.

– That there will be no material change in the sovereign risk of Peru, imputing political, legal, fiscal and economic conditions in the country.

– That there is no substantial increase in international fuel prices.

– That there is no global economic crisis, particularly in the leading industrialized countries.

In the course of our evaluation, we have further relied on representations given by the management of Alexandra S.A.C. and its subsidiaries that Alexandra S.A.C. and its subsidiaries have valid and enforceable titles to the assets which are freely transferable, and have free and uninterrupted usage rights.

We have evaluated the assets on an individual basis. Thus, no adjustment has been made for the potential sale of the entire portfolio to a single party or an open sale to many parties simultaneously.

Valuation Considerations:

We have inspected the properties of Alexandra S.A.C. as well as the four (04) fishmeal plants and the thirteen (13) vessels and issued valuation reports for each asset.

We received from Alexandra S.A.C. management the necessary technical information, plans, historical data regarding maintenance and production, registry cards of the assets, manual of good practices from the manufacturer, norms of operational procedures, standards of cleaning, plan HACCAP, licenses of operation granted by PRODUCE and, in the case of the vessels, we relied on the following additional information: certificates issued by the MARITIME AUTHORITY, Operation License granted by PRODUCE, report of the Insurance Company and the reports of maintenance issued by the Shipyard "Sima-Chimbote" and "Inasa" place where the repair and maintenance of the Hull and Machineries was made.

We have not carried out detailed procedures with respect to each property in order to accurately verify the land area or construction and structural characteristics.

We have assumed that the areas of land and construction shown in the plans and registry cards are correct. Related information contained in the valuation reports is based on documents provided to us by Alexandra S.A.C. management, the accuracy of which is assumed by their registration in the Public Registries.

We have also verified the inventory of machinery and equipment of each of the plants and vessels.

We have no reason to doubt the truth and accuracy of the information provided by Alexandra S.A.C. management, and has received assurances that no material facts have been omitted from the information provided. We have no reason to suspect that any material information has not been provided.

No consideration has been given in our evaluation to any indebtness attached to the assets.

Moreover, we have not included any contingency for expenses or impositions that could be incurred and thus affect the sales process.

In preparing our valuation, we have assumed that the properties are free of any restrictions or contingencies that could affect its value.

B) Fishing vessels of Procesadora del Carmen S.A.

We confirm that as part of the valuation process, we physically inspected the fishing vessels of Procesadora del Carmen S.A., in addition to making market investigations as we have deemed necessary or desirable. We have relied on the information provided by Procesadora del Carmen S.A. management to the extent that we can express to you our opinion of the fair market value of the described fishing vessels of Procesadora del Carmen S.A. as of 30 September 2006.

Basis of Valuation:

The valuations of the two (02) vessels are primarily based on a determination of the fair market value for each asset, same as that described under the above (A) regarding the valuation of the fishing vessels of Alexandra S.A.C.

In the course of our evaluation, we have further relied on representations given by Procesadora del Carmen S.A. management that Procesadora del Carmen S.A. have valid and enforceable titles to the fishing vessels which are freely transferable, and have free and uninterrupted usage rights.

Valuation Methodology and Valuation Assumptions:

We have used the same valuation methodology and based on the same valuation assumptions as described under the above (A) regarding the valuation of the fishing vessels of Alexandra S.A.C.

Valuation Considerations:

We have inspected the two (02) fishing vessels of Procesadora del Carmen S.A. and issued valuation reports for each vessel.

We received from Procesadora del Carmen S.A. management the necessary technical information, plans, historical data regarding maintenance and production, certificates issued by the MARITIME AUTHORITY, Operation License granted by PRODUCE, report of the Insurance Company and the reports of maintenance issued by the Shipyard where the repair and maintenance of the Hull and Machineries was made.

We have no reason to doubt the truth and accuracy of the information provided by Procesadora del Carmen S.A. management, and has received assurances that no material facts have been omitted from the information provided. We have no reason to suspect that any material information has not been provided.

Our valuation reports have been prepared under the generally accepted procedures of valuation in Peru and internationally. They have been made according to the national regulations in this case the National Regulation for valuations in Peru approved by the R.M. Nº 098-2006, in its titles V. Chapters a, b, c, d, e, and f, as well as the International Norms of Valuation of IVSC (International Valuation Standards Comittee). The reports do not include the title investigations.

Remarks

The indicated amounts of value in each one of the valuation reports are expressed in United States dollars.

Our Summary of Values and the Reports are enclosed herewith.

Yours faithfully

C d N JORGE REVELLI BOURONCLE
NAVAL SURVEYOR
HULLS AND MACHINERIES
Nº DGC/DI-1-13158-PN
SURVEYOR PLANT SBS Nº 424-98

ING. JULIO POLAR HINOJOSA
NAVAL SURVEYOR
HULLS AND MACHINERIES
Nº DI-13181-1-PN
SURVEYOR PLANT SBS Nº 891

INVALSA
INGENIERÍA Y VALUACIONES S.A.

/s/Julio Polar Hinojosa

JULIO POLAR HINOJOSA
GENERAL MANAGER
SURVEYORS PLANT SBS Nº 213-2002

A) SUMMARY OF VALUES OF THE PROPERTIES OF ALEXANDRA S.A.C.

Vessels/Fishmeal Plant	Capacity *M^3*	Market Value in existing state September 2006 *US$ Thousands*
SIMY 1	358	3,624
SIMY 2	323	3,476
SIMY 3	360	3,571
SIMY 4	372	3,478
SIMY 5	271	2,574
SIMY 6	280	2,574
SIMY 7	350	3,345
ELISA	329	3,902
MOISES	351	3,466
LUCAS	223	2,204
LOURDES	103	984
MARACAIBO	220	2,082
VIVERE	240	1,729
Value of Vessels		**37,010**
	Capacity *Tons/Hr*	
PLANT OF CHICAMA	80 T/H prime	
Industrial property		1,340
Warehouse property of fishmeal		538
Machinery, equipment, vehicles, operation		13,471
TOTAL		15,349
PLANT OF HUARMEY	76 T/H FAQ	
Industrial property		940
Property with hut of pumping and wells "Salitral Bajo"		15
Warehouse property of fishmeal		134
Warehouse property of fishmeal		31
Warehouse with hut of pumping and water wells (adjacent land)		60
Machinery, equipment, vehicles, operation		9,800
TOTAL		10,980
PLANT OF CHANCAY	80 T/H prime	
Industrial property		1,495
Warehouse property of fishmeal		381
Machinery, equipment, vehicles, operation		14,641
TOTAL		16,517
PLANT OF LA PLANCHADA	145 T/H FAQ	
Industrial property		1,208
Property with hut of pumping and wells		254
Warehouse property of fishmeal		51
Machinery, equipment, vehicles, operation		12,890
TOTAL		**14,404**
Value of fishmeal plants		**57,251**
TOTAL VALUE		**94,261**

B) SUMMARY OF VALUES OF THE VESSELS OF PROCESADORA DEL CARMEN S.A.

Vessels	Capacity	Market Value in existing state September 2006
	M3	*US$ Thousands*
TAMBO-1	268	2,931
RH-1	377	4,190
TOTAL VALUE		**7,121**

Notes:

INGENIERÍA Y VALUACIONES S.A. is a leading company specializing in consultancy, valuation and inventory assessment.

We have a qualified team of experts and valuers.

Our office headquarters is located in Av. Reducto 1289, Miraflores, Lima, and other subsidiary offices are located in Trujillo, Chiclayo, Piura, Tumbes, Cajamarca, Huancayo, Arequipa and Cuzco.

In the area of valuations for tangible and intangible goods, our principal clients are financial entities, private companies, real estate companies, law firms, consulting companies, governmental agencies and international entities.

We have been recognized and registered by the financial association: Superintendencia de Banca y Seguros and other professional groups and entities for national and international surveyors.

Our methods apply national regulations and laws, in addition to the regulations of the Union Panamericana de Asociaciones de Valuacion – UPAV, and the International Valuations Regulations IVSC.

Certifications and Awards:

Ingeniería y Valuaciones S.A., has been recognized by REPEV of the Superintendencia de Banca y Seguros, with register No. 213-2002. The major shareholder and founding partner Julio Polar, has recognition with the following entities:

– Consejo Nacional de Tasaciones (Resolution No. 042-2005-vivienda-9310-Supervisor)

– Superintendencia de Banca y Seguros (REPEV No. 891)

– Cuerpo Tecnico de Tasaciones del Peru (Register 657)

– Direccion General de Capitanias (Titulo de Perito Maritimo No. D113181-1-PN)

– Centro de Peritajes del Colegio de Ingenieros del Peru (CIP No. 18049 Perito en valuaciones, supervisión y desarrollo de Proyectos)

– Valuador Panamericano Acreditado ante el UPAV (Unión Panamericana de Asociación de Valuación) Registro No. 287

CREDENTIALS OF SURVEYORS

JORGE REVELLI is a Naval Valuer of Hulls and Machinery.

Mr. Revelli has 30 years of experience in the maritime field, two of them as chief of the Naval Repair Division of SIMA-CALLAO shipyards, and four years as Manager of SIMA-CHIMBOTE Shipyards, specializing in the construction and repair of fishing vessels, high board vessels, and Peruvian Navy vessels, and in the manufacturing of machinery and metal-mechanical structures used in the fishing industry.

Mr. Revelli has eight (8) years experience as expert valuer of hulls and machinery of fishing vessels and industrial fishmeal and frozen products plants; he is also an Insurance Valuer for Maritime Hulls and holds the following valid permits:

Naval Expert Nº DGC/DI-13158-PN issued by DICAPI (Direction Office of Captainship).

Expert Valuer of Hulls and Machineries, for the financial and insurance system, with REPEV Nº 424-98, registered in the S.B.S. (Insurance and Banking Superintendence).

JULIO POLAR is a Mechanical Electrical Engineer with 36 years of professional experience, mainly in the fishing sector, has worked in fishing industrial plants and vessels in Chimbote and Paita.

As an expert surveyor, Mr. Polar has 12 years of experience in valuing fishing vessels and industrial fishmeal and frozen products plants.

Mr. Polar holds the following permits as valuation expert:

Naval expert surveyor of hulls and machinery, issued by DICAPI

Valuation surveyor with REPEV Nº 891, registered in the S.B.S.

Valuation expert registered in the Peruvian Engineering Association, with license CIP Nº 18049

Valuation expert registered in the Technical Valuation Association of Peru, with Registry Nº 657

Valuation Supervisor for the National Valuation Office, with Resolution Nº 008-2002-VIVIENDA

Panamerican Valuation Expert, with registry from UPAV (Panamerican Valuators Union) Nº 287.

ANNEX

COMPARABLE TRANSACTIONS

These are described below:

Vessels

F/V TAGO IV:	steel hull with a hold of 210 m^3 capacity, at US$2 million
F/V VIVERE:	wooden hull with 300 m^3 capacity, at US$1.9 million

F/V ANDREA:	steel hull with a hold of 350 m^3;
F/V DALMACIA:	steel hull with a hold of 350 m^3;
F/V DALMACIA II:	steel hull with a hold of 240 m^3;
F/V DALMACIA III:	steel hull with a hold of 250 m^3;
F/V ANDELKA:	steel hull with a hold of 240 m^3;
F/V YOVANA:	steel hull with a hold of 240 m^3;
F/V JADRAN I:	steel hull with a hold of 350 m^3;
F/V JADRAN II:	steel hull with a hold of 330 m^3;

Total: 2,350 m^3 in US$29 million by COPEINCA

Fishing License:

F/V Guañape 1 – Guañape 8, at US$4,500 m/t

The fishing sector has particular characteristics as to its behavior and the value of related assets:

Industrial Plants – Vessels

In 2005, the sale of two fishmeal plants was concluded: one of them for 40 tons FAQ valued at US$4.2 million and the other for 40 tons Prime worth US$4.7 million.

Our valuations of Alexandra S.A.C.'s vessels and industrial plants are in accordance with fair market values, which have increased during the period 2004 through 2006, due to much consolidation within the sector.

Copeinca purchased two fishmeal plants FAQ from del Mar S.A. and 14 anchovy and hake fishing vessels, for a total amount of US$32 million.

At the beginning of 2006, the sale of the biggest conglomerate group SIPESA was concluded, consisting of nine fishmeal plants (seven FAQ and two Prime) and 52 vessels, bought by Tecnológica de Alimentos S.A., one of the strongest groups in Peru. This transaction amounted to approximately US$200 million.

The fishing group, which has two industrial prime fishmeal plants, with a total capacity of 167 metric tons per hour, and a fishing fleet of 1,670 metric tons of hold capacity, offered its assets for US$42 million, and is still negotiating with several national and foreign groups to conclude the sale.

Other private sales have occurred further demonstrating liquidity in the market.

C d N JORGE REVELLI BOURONCLE
NAVAL SURVEYOR
HULLS AND MACHINERIES
Nº DGC/DI-1-13158-PN
PLANTA SURVEYOR SBS Nº 424-98

ING. JULIO POLAR HINOJOSA
NAVAL SURVEYOR
HULLS AND MACHINERIES
Nº DI-13181-1-PN
PLANTA SURVEYOR SBS Nº 891

INTERNACIONAL UPAV ACREDITATION: PANAMERICAN UNION OF VALUATIONS Nº 287

INVALSA
INGENIERÍA Y VALUACIONES S.A.

/s/Julio Polar Hinojosa

JULIO POLAR HINOJOSA
GENERAL MANAGER
SURVEYORS PLANT SBS Nº 213-2002

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code of Securities Transaction by Directors of Listed Companies are as follows:

Shares

	Number of ordinary shares held (long position)		
Director	**Personal Interest**	**Family Interest**	**Percentage of the issued share capital of the Company**
Ng Joo Siang	–	706,400 *Note*	0.06%
Ng Puay Yee	1,411,200	–	0.12%
Cheng Nai Ming	4,094,336	–	0.34%

Note: These shares are held under the name of the spouse of Ng Joo Siang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position 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 required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provisions of the SFO); or are required pursuant to section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Interests of Substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, each of the following persons, other than a director or chief executive of the Company, had an interest and/or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group:

Name of shareholder	Capacity	Total number of issued ordinary shares held (long position)	Percentage of the issued share capital of the Company
N.S. Hong Investment (BVI) Limited *Note (1)*	Beneficial owner	617,384,525	51.4%
HSBC Holdings plc *Note (2)*	Interests of corporations controlled by HSBC Holdings plc	292,171,876	16.2%

Notes:

1. N. S. Hong Investment (BVI) Limited directly holds such shares.

2. These shares are held by The Hong Kong and Shanghai Banking Corporation Limited, which is in turn controlled by various subsidiaries of HSBC Holdings plc as a result of its underwriting obligations under the PAIH Rights Issue.

Saved as disclosed above and so far as is known to the Directors, as at the Latest Practicable Date, no other person has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Interest of Substantial Shareholders in the Company's subsidiaries

The Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of subsidiaries of the Company or any options in respect of such capital.

INTERESTS IN CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2006 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangement entered into by any member of the Group and subsisting at the date of this circular which was significant in relation to the business of the Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates (as defined in the Listing Rules) was interested in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

SERVICE CONTRACTS

Each of Teh Hong Eng, Ng Joo Siang, Ng Joo Kwee, Ng Joo Puay, Frank and Cheng Nai Ming has entered into a service agreement with the Company's subsidiary and Ng Puay Yee has entered into a service agreement with the Company. These service agreements shall be valid unless terminated by either party giving at least one year's written notice, except for the service agreement of Cheng Nai Ming which requires at least six months' written notice.

Other than disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service agreement with any member of the Group which will not expire or is not determinable within one year without payment of compensation other than statutory compensation.

MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, have been entered into by members of the Group within two years immediately preceding the date of this circular:

(a) The management and underwriting agreement dated 16 January 2006 entered into between CFGL and HL Bank in relation to the initial public offering of the new shares of the CFGL for listing on the main board of the SGX-ST.

(b) The vessel operating agreement dated 20 February 2006 ("Second VOA") entered in between China Fisheries International Limited ("CFIL") with Alatir Limited ("Alatir") pursuant to which Alatir engaged CFIL to manage and operate seven fishing vessels for an initial employment period of 10 years, with an option granted to CFIL to extend the employment period for another 10 years. Pursuant to the terms of the Second VOA, CFIL is entitled to the proceeds of the sale of all the catches to be harvested by the fishing vessels and shall be responsible for all operating expenses. In return, Alatir would receive a fixed charter hire of US$12,000 (approximately HK$93,600) per vessel day and a share of 20% of the operating profits (after deduction of the fixed charter hire) to be derived by CFIL from the operation of the fishing vessels. Under the Second VOA, CFIL has an option to prepay the fixed charter hire for the initial 10-year employment period at US$82 million (approximately HK$639.6 million).

(c) On 4 May 2006, CFG Investment S.A.C. entered into a stock purchase agreement with Messrs. Alfredo Hohagen Fernandini, Alicia Esperanza Peschiera de Hohagen, Augusto Hohagen Peschiera and Macarena Pilar Rita Hurtado Araujo Alvarez in relation to the acquisition of the entire issued share capital of Procesadora Carmen for a cash consideration of US$4.6 million (approximately HK$35.9 million).

(d) On 6 June 2006, CFG Investment S.A.C. entered into a purchase agreement with Messrs. Jacobo Estuardo Cavenago Rebaza and Teresa Consuelo Zolezzi de Cavenago in relation to the acquisition of a fishing vessel "C&Z-8" for a cash consideration of US$4.7 million (approximately HK$36.7 million).

(e) On 12 December 2006, the Purchaser and the CFGL, together with certain of its subsidiaries, entered into a purchase agreement with HSBC in connection with the issuance of the Senior Notes.

(f) On 22 December 2006, CFG Investment S.A.C. entered into a stock purchase agreement with Messrs. Luis Alberto Gonáles Ames, Eduardo Gonáles Ames, Yolanda Teresa Gonáles Ames, Carmen Gonáles Ames and Carmen Villarreal Ames in relation to the acquisition of the entire issued capital of Pesquera Isla for a cash consideration of US$4.4 million (approximately HK$34.3 million).

(g) The vessel operating agreement dated 4 January 2007 ("Third VOA") entered in by CFIL, Alatir and Perun pursuant to which Alatir and Perun have jointly engaged CFIL to manage and operate three fishing vessels for an initial employment period of 18 years. Pursuant to the terms of the Third VOA, CFIL is entitled to the proceeds of the sale of all the catches to be harvested by the fishing vessels and shall be responsible for all operating expenses. In return, Alatir and Perun are entitled to receive a prepaid fixed charter hire at the sum of US$150,000,000 (approximately HK$1,170,000,000) for the entire employment period and a share of 20% of the operating profits (before deducting amortisation of the prepaid fixed charter hire) to be derived by CFIL from the operation of the fishing vessels.

(h) The vessel operating agreement dated 24 January 2007 ("Fourth VOA") entered in between CFIL and Perun pursuant to which Perun engaged CFIL to manage and operate six fishing vessels for an initial employment period of 5 years. Pursuant to the terms of the Fourth VOA, CFIL is entitled to the proceeds of the sale of all the catches to be harvested by the fishing vessels and shall be responsible for all operating expenses. In return, Alatir is entitled to receive a fixed charter hire at the sum of US$12,000 (approximately HK$93,600) per vessel day and a share of 20% of the operating profits (after the deduction of the fixed charter hire) to be derived by CFIL from the operation of the fishing vessels.

(i) On 22 February 2007, the CFG Investment S.A.C. entered into a purchase agreement with Peru Fishing Investments S.A.C. in relation to the acquisition of a fishing vessel "Bryan" for a cash consideration of US$2.4 million (approximately HK$18.7 million).

(j) On 14 March 2007, CFG Singapore entered into a sale and purchase agreement with Simple Holdings Corp. in relation to the acquisition of the entire issued share capital of Grenadine for a cash consideration of US$14 million (approximately HK$109.2 million).

(k) On 20 March 2007, Golden Target Pacific Limited, an indirect non-wholly-owned subsidiary of the Company, entered into a sale and purchase agreement in relation to the acquisition of a 45% interest in Super Investment Limited from Jade China Investments Limited at a consideration of US$356 million (approximately HK$2,777 million).

(l) On 20 March 2007, PAH entered into a convertible bonds subscription agreement with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in connection with the issue of convertible bonds up to an aggregate principal amount of US$93 million (approximately HK$725 million), 4% semi-annually in arrear convertible bonds due 2012 and convertible into fully-paid shares of PAH.

(m) On 20 March 2007, the Company, N.S. Hong and HSBC (being the underwriter in relation to the rights issue of the Company) entered into an underwriting agreement in relation to the rights issue of the Company. The Company has proposed to issue 600,863,876 new Shares at the exercise price of HK$1.55 per new Share by way of a rights issue on the basis of 1 new share of the Company for every 2 existing Shares.

(n) On 20 March 2007, PAH entered into an underwriting agreement with HSBC, under which HSBC has been appointed as the lead manager for the rights issue of PAH and the underwriter for the portion of the rights issue of PAH not underwritten by the Company. PAH has proposed to issue 662,215,616 new shares of PAH at the exercise price of S$0.52 per new share by way of a rights issue on the basis of 1 new share of PAH for each existing share of PAH.

LITIGATION

Feoso (Singapore) Private Limited ("Feoso") issued a writ of summons against the Company , two employees of the Company (the "Employees") and Ever Bright Energy Co. Ltd. ("Ever Bright") on 21 June 2005 in relation to a dispute over the supply of oil products by Ever Bright to Feoso in November 1999. The amount claimed in the writ is in the sum of approximately US$3,709,000 (approximately HK$28,930,000) plus interest, cost and other ancillary relief. Ever Bright was formerly an indirect wholly-owned subsidiary of PAH. The Group disposed of its interest in Ever Bright on 31 January 2000.

The Company and the Employees filed a Defence on 2 September 2005. The Company has, through its solicitors, requested Feoso to put up security for the Company's legal cost of proceedings in the event that the claim of Feoso fails. The Company's request for security for legal costs is still under negotiation by the relevant parties.

Saved as disclosed above and on pages 36 to 38 (under the section headed "Litigation of the Peruvian Companies before Acquisition") as at the Latest Practicable Date, no member of the Enlarged Group is engaged in any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 March 2006 (being the date to which the latest published audited financial statements of the Group were made up).

EXPERTS

The following sets out the qualifications of the experts which have given opinions or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Jorge Revelli Bouroncle	Registered Expert Valuer of Hulls and Machineries, Registered Naval Surveyor
Julio Polar Hinojosa	Registered Expert Valuer of Hulls and Machineries, Registered Naval Surveyor

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with its statement(s) included in the form and context in which it is/they are included.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any interest in any assets which have been, since 31 March 2006 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the offices of the Company from the date of this circular up and including 3 May 2007:

(a) the memorandum of association and bye-laws of the Company;

(b) the Share Purchase Agreement dated 12 June 2006;

(c) the First Amendment dated 10 July 2006;

(d) the Second Amendment dated 6 September 2006;

(e) the Third Amendment dated 16 October 2006;

(f) the Fourth Amendment dated 24 October 2006;

(g) the Fifth Amendment dated 1 December 2006;

(h) the material contracts referred to in the section headed "Material Contracts" of this circular;

(i) the accountants' report on the financial information of the Peruvian Companies, the text of which is set out in Appendix II to this circular;

(j) the accountants' report on pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(k) the letter from Invalsa Ingenieria y Valuaciones S.A., independent valuers, in relation to the valuation of 15 fishing vessels acquired from Alexandra and its subsidiaries and Procesadora del Carmen S.A. and four fishmeal processing plants of Alexandra and its subsidiaries, the text of which is set out in Appendix IV to this circular;

(l) the Company's 2004, 2005 and 2006 annual reports;

(m) the unaudited interim report of the Company for the six months ended 30 September 2006; and

(n) a circular dated 15 August 2006 on proposed general mandates to issue new shares, proposed re-election of directors, proposed increase in authorized share capital and notice of annual general meeting.

MISCELLANEOUS

(a) The Company's share registrar and transfer office is Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(b) The Company Secretary and Qualified Accountant of the Company is Mr. Cheng Nai Ming, an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheng is also the finance director of the Company.

(c) In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.