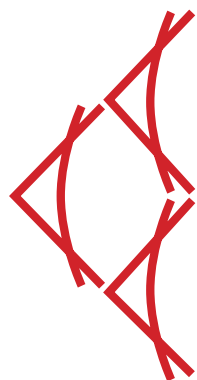
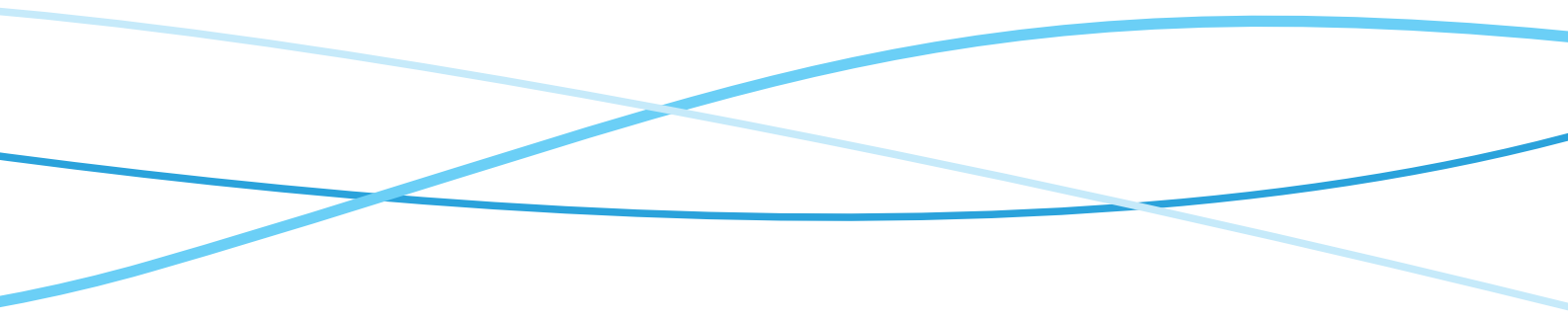


ANNUAL REPORT 2006



**CHINA
FISHERY**
GROUP LIMITED



FISH FOR LIFE



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Corporate **Mission**

China Fishery Group Limited envisages becoming a leading force in the global fishery industry and is committed to continually securing access to this valuable marine resource through sustainable fishing practices.

Corporate **Profile**

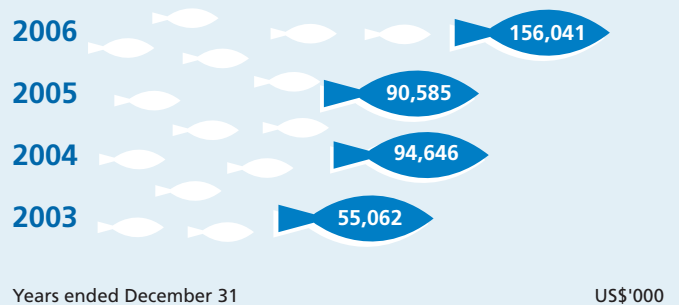
China Fishery Group Limited is a global, integrated industrial fishing specialist with governmental rights to fish in diverse locations across the world's oceans. Employing state-of-the-art processing and freezing technology, the Company delivers high quality catch to discerning consumers the world over. Riding on an ever-growing global demand for fish, the Company is committed to continually securing access to this limited and valuable marine resource, and fulfilling consumer needs through sustainable fishing practices.

Financial Highlights



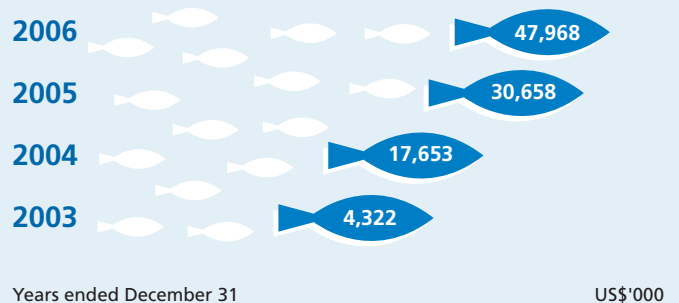
TURNOVER

Through the commencement of a second Vessel Operating Agreement (“VOA”) in February 2006, the Group effectively increased its harvest volume from the North Pacific Ocean in FY2006 to approximately 140,000 tonnes, from 72,000 tonnes a year ago. As a result, turnover jumped 72.2% to US\$156.0 million from US\$90.6 million.



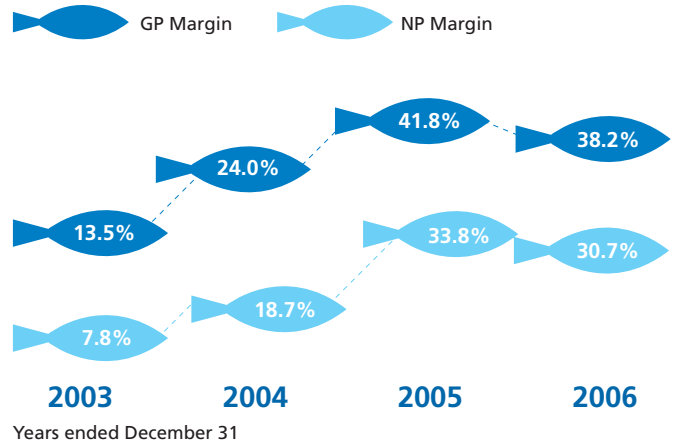
NET PROFIT

In line with the turnover growth, net profit grew 56.5% year-on-year to US\$48.0 million from US\$30.7 million.



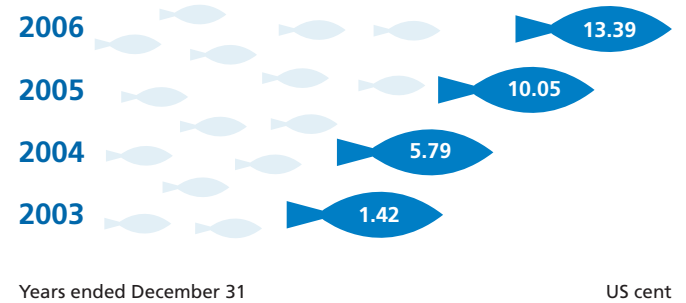
PROFIT MARGINS

Gross and net profit margins for FY2006 remained relatively stable at 38.2% and 30.7% respectively.



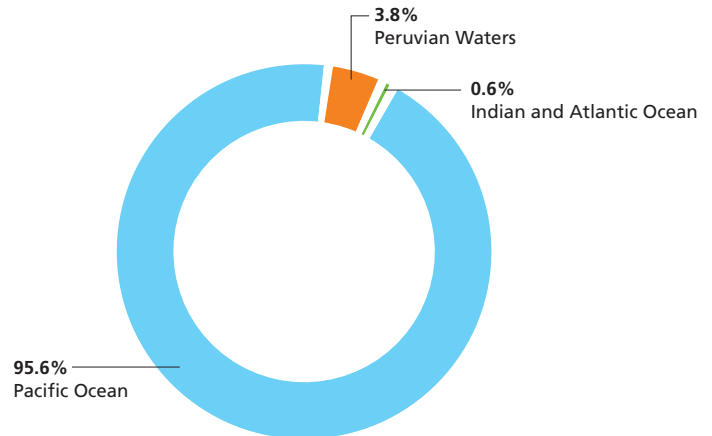
BASIC EARNINGS PER SHARE

With the growth in earnings, basic earnings per share increased to US13.39 cents in FY2006, from US10.05 cents in FY2005.



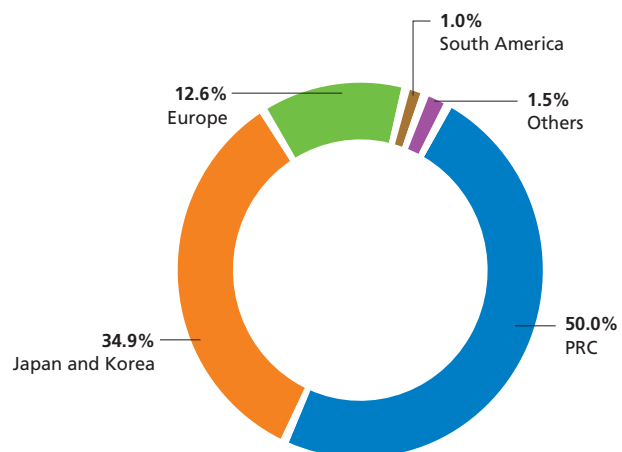
REVENUE BY FISHING LOCATIONS

Pacific Ocean remained as the most significant fishing ground, accounting for 95.6% of aggregate turnover. Through the Group's foray into Peru in FY2006, Peruvian Waters also accounted for 3.8% of total revenue.



REVENUE BY MARKETS

PRC remained as the Group's largest market, while Japan and Korea gained significant share as sales of premium products such as fish roe increased. With a larger fleet and hence greater onboard processing capabilities, sales of processed-at-sea frozen fish fillets to the European market also increased.





A Message to **Shareholders**



Dear Valued Investors

On behalf of the Board of Directors, I am pleased to present to you the second Annual Report of China Fishery Group Limited (“China Fishery” or the “Company”) and its subsidiaries (collectively “China Fishery Group” or the “Group”) for the financial year ended 31 December 2006 (“FY2006”).

It has been an extraordinarily intense but fulfilling 14 months since China Fishery’s successful listing on the Mainboard of Singapore Exchange Securities Trading Limited on 25 January 2006.

FY2006 in Review

Within this short span of time, the Group has rapidly drawn on its listed-company status, as well as leveraged on penultimate parent Pacific Andes International Holdings Limited, to add new dimensions to its operations as a global integrated industrial fishing specialist. We are pleased to report our achievements.

Operational Review

Several major developments in FY2006 have ensconced the Group in a position to reap greater rewards of growth going forward. They are outlined below:

❖ Expanded harvest capacity

- Following the success of our fishing operations under the first Vessel Operating Agreement (“VOA”) signed in 2004, we entered into our second VOA with arranging company Alatir Limited in February 2006. The Group prepaid US\$82 million in charter hire for this 10-year VOA, using a combination of net proceeds from our initial public offering and internal resources. The VOA doubled our supertrawler fleet to 14, and increased our harvest and onboard-processing capacities significantly. For FY2006, we harvested approximately 140,000 tonnes of fish under the VOA arrangements, compared to 72,000 tonnes in FY2005.

❖ Expanded fishing grounds

- In March 2006, we incorporated CFG Investment SAC (“CFG Investment”), formally setting up operations in Peru. It is important for us to establish a foothold in Peru which has, notably, the world’s most productive wild-catch fishery.
- In the immediate term, we stand to benefit from a robust global demand for Peruvian fishmeal – which is a highly important component of fish, shrimp, animal and livestock feeds. Peruvian fishmeal complements the white fishmeal which we produce onboard our supertrawlers, as we can now offer a wider range of products to our customers. Over the longer term, Peru offers a strategic logistical base to our South Pacific operations, for which we see abundant opportunities.

❖ Strengthened operating profile

- In establishing our Peruvian presence, we acquired the fishmeal processing operations of a leading Peruvian fishmeal processor and exporter, Alexandra SAC (“Alexandra”), as well as several fishing companies, for a total of around US\$109 million. These acquisitions have endowed us with assets including 4 fishmeal processing plants strategically located along the Peruvian coast, as well as 18 fishing vessels and the required fishing or operating licences.
- We successfully merged Alexandra’s fishmeal processing operations into the Group in November 2006, producing 16,700 tonnes of fishmeal in the two months of operation to the end of the financial year. Sales and profit from the fishmeal produced will be recognised in the first quarter of FY2007. As the Group had incurred various expenses associated with the acquisitions, our Peruvian operations had a temporary net loss of US\$2.6 million.

❖ **Enlarged capital base**

- On 19 December 2006, CFG Investment issued seven-year senior notes for the principal amount of US\$225 million. Maturing in 2013, the notes pay a coupon of 9.25% per annum, semi-annually in arrears commencing on 19 June 2007.
- The notes issue has provided us with funds to finance our Peruvian acquisitions and other corporate growth initiatives, empowering us to capture opportunities that can strengthen returns on equity. More importantly, taking a long-term perspective, this exercise has both expanded as well as stabilised our capital base, and also given us more capital flexibility to pursue future developments.

Financial Review

Our FY2006 results have underscored the direct earnings-accretive effects of gaining new Vessel Operating Agreements (“VOAs”), which remains the mainstay of our operations. Under the VOAs, we charter supertrawlers on a long-term basis for fishing in the Pacific Ocean.

With the inking of our second VOA as mentioned earlier, the Group achieved a 72.2% year-on-year jump in revenue to US\$156.0 million. Growth in earnings before interest, tax, depreciation and amortisation was even more evident; rising 82.9% to US\$69.7 million. Net profit was up 56.4% to US\$48.0 million, and both our gross and net profit margins for the year remained relatively stable at 38.2% and 30.7% respectively.

In terms of our revenue mix, we are continuing to see a greater diversification in markets. This is a result of proactive and ongoing management of our selling strategy against prevailing supply and demand trends. China remained our largest market, while Japan and Korea gained significant share as sales of premium products such as fish roe increased. With a larger fleet and hence greater onboard processing capabilities, we also increased our sales of processed-at-sea frozen fish fillets to the European market.

Consistent with the larger supertrawler fleet that we now operate, cost of sales, charter hire and vessel operating expenses – increased to US\$96.5 million from US\$52.7 million a year ago. Due to China Fishery’s listing and our Peruvian acquisitions, the Group also saw administrative and finance expenses increase to US\$12.4 million in FY2006, from US\$2.6 million in FY2005.

With respect to the Group’s balance sheet, we grew our asset base considerably through the acquisition of our Peruvian operations, as well as our second VOA, recording US\$437.8 million in total assets, compared to US\$82.5 million a year earlier. Of the US\$437.8 million, US\$57.7 million comprised cash and bank balances.

To meet the capital requirements of a significantly expanded scope of operations, the Group’s total liabilities increased to US\$324.9 million from US\$42.3 million. Of these, US\$276.4 million were in non-current liabilities, attributed mainly by our senior notes issue and long-term bank loans.

Earnings per share, based on a weighted average of 358,292,055 shares, rose to 13.39 US cents for FY2006, versus 10.05 US cents based on the pre-IPO share capital of 305,040,000 shares in FY2005.

In view of the strong performance, the Board of Directors has recommended a final dividend of 2.22 Singapore cents per ordinary share, on top of an interim dividend of 4.71 Singapore cents paid earlier. Total dividend payout proposed for the year represents one third of FY2006 net profit.

Looking Ahead

Seafood is an essential component of diets in all parts of the world. Global consumption of fish is currently stabilised at around 16.6kg per capita, but when compounded by an increasing global population base, total demand for fish is set to rise by as much as another 30% over the next decade to more than 180 million tonnes a year.

However, as the popularity of seafood grows, so does global awareness of the need to manage sustainably the world’s fishery stocks. It therefore is a constant challenge for fishing companies like us to innovate ways to find the proper balance between commercial needs and the need to ensure that we fulfil our role as an environmentally responsible member of the industry.

The prevalent fishing systems of the world today comprise two principal mechanisms that are designed to manage fishing activity and thereby preserve fishery stocks. They are, first, limits on the amount of fish that can be harvested in one year and, second, limits on the amount of fishing capacity available within a certain fishery or country. As a result, we have seen harvest levels of ocean fish remain at relatively stable levels of between 90 to 95 million tonnes per annum in the last decade.

China Fishery strongly endorses these mechanisms and its growth strategy, taking account of these limits, is to achieve control of more fishery resources within the predefined parameters, either by way of more VOAs or strategic acquisitions, while encouraging two things – minimising waste and ensuring optimal use of our fish resource, and enhancing efficiencies across the gamut of our operations.

With this underlying rationale underpinning our sustainable growth model, some of our growth plans are outlined below:

❖ **Securing more Vessel Operating Agreements**

- Subsequent to the year-end, in January 2007, we successfully secured our third VOA for US\$150 million (amortised over 18 years), as well as a fourth VOA that is signed on a daily charter-hire basis. Through these two VOAs, we have consolidated the resources of 9 independent fishing vessels, thereby expanding our supertrawler fleet size to 23. More importantly, we will be able to harvest no less than 270,000 tonnes of fish through the total of four VOAs in FY2007.
- A larger fleet not merely increases our harvesting and onboard processing capabilities; we are also able to exercise greater flexibility in fleet deployment and in turn achieve greater efficiencies of scale. Forging equitable VOAs that give us increasingly valuable access to more fishery resources will remain as one of the management's top priorities.

❖ **Strategic or complementary acquisitions in Peru**

- At present, our fishmeal processing operations procure over half of our Peruvian Anchovy needs from third parties, which can cost more than twice as much as the Peruvian Anchovy harvested by our own fleet.
- As such, we stand to generate substantial cost savings and profit margin enhancement by increasing our own harvests of Peruvian Anchovy. Hence, we will continue to be on the lookout for appropriate acquisition opportunities in Peru to drive yield and plant utilisation improvements.

❖ **Developing South Pacific operations**

- Our establishment of a significant presence in Peru has provided a springboard for the development of our fishing operations in the South Pacific Ocean, which we had conducted on a provisional basis in FY2005 to satisfactory results.
- We suspended the operations temporarily in FY2006 to carry out enhancement works on selected supertrawlers, which is on track for completion in FY2007. With their fishing capacity increased and onboard equipment fully upgraded, these vessels will be primed for operation in the South Pacific Ocean, where fishing conditions can be testing. Ultimately, we envisage our South Pacific operations to play a more substantial role in the Group's long-term development.

❖ **Continual optimisation of capital structure**

- In January 2007, we placed out to global investors 29 million new shares, which represent 7.4% of our enlarged issued share capital of 391,040,000 shares. Priced at S\$3.98 apiece, China Fishery received approximately S\$113.1 million in net proceeds, which have been used to fund the balance payment of our third VOA.
- The strategic reasons behind the placement are to improve the liquidity of China Fishery's shares, as well as further optimise our capital base following the senior notes issue.

In Appreciation

As both our existing shareholders and global investment communities gained a more thorough appreciation of the unique facets of this industry and our business, we have seen the market's valuation of China Fishery grow commensurately.

We are encouraged by the fact that we have now gathered the support of many stakeholders, who share our collective vision and aspirations. With your vote of confidence, we will continue to put in our best efforts to create and deliver value. On behalf of the Board, I would also like to thank our customers, business partners, bankers, advisers and shareholders for your warm support.

Riding on the momentum gained from our sterling performance in FY2006, we shall look forward to another exceptional year ahead.

Ng Joo Kwee

Executive Chairman

12 April 2007

Management Discussion on Financials

Revenue & Profits

Group revenue for the financial year ended 31 December 2006 (“FY2006”) jumped 72.2% to US\$156.0 million from US\$90.6 million, whilst net profit grew 56.5% year-on-year to US\$48.0 million from US\$30.7 million. Earnings before interest, tax, depreciation and amortisation (“EBITDA”) for FY2006 was up 82.9% to US\$69.7 million, from US\$38.1 million in FY2005.

Through the commencement of a second Vessel Operating Agreement (“VOA”) in February 2006, the Group effectively increased its harvest volume from the Pacific Ocean in FY2006 to approximately 140,000 tonnes, from 72,000 tonnes a year ago. Pacific Ocean harvests contributed US\$49.6 million towards Group net profit in FY2006.

With respect to the Group’s newly acquired Peruvian fishmeal processing operations, a timing difference in shipment has resulted in the fishmeal produced over the two months since the Group took over operations in late October 2006 to be booked under inventories as at 31 December 2006. The inventories include 16,700 tonnes of fishmeal, which are valued at US\$10.5 million. The products are due for shipment in February 2007. Accordingly, sales and profits from this business segment will be recorded only in the first quarter of FY2007. As a result, the Peruvian operations incurred a temporary net loss of US\$2.6 million for the reporting period.

Consistent with the commencement of the second VOA, costs of sales - which include amortised charter hire expenses and vessel operating costs - increased to US\$96.5 million from US\$52.7 million. Gross profit for FY2006 increased 57.2% to US\$59.6 million in FY2006 from US\$37.9 million in FY2005.

With the Group’s interim suspension of fishing operations in the southern part of the Pacific Ocean so as to modify and upgrade selected supertrawlers, freight expenses were reduced, resulting in a decrease in selling expenses for FY2006 to US\$1.4 million, from US\$4.7 million in FY2005.

On the Group’s listing in January 2006, as well as significant expansion of its business over the last one year, finance and administrative expenses for FY2006 rose to US\$5.4 million and US\$6.9 million respectively, from US\$1.8 million and US\$0.8 million in FY2005. Of the finance expenses, US\$2.2 million were in relation to the acquisitions in Peru.

Gross and net profit margins for FY2006 are 38.2% and 30.7% respectively.

Revenue by Markets

On a geographically segmented basis, the People’s Republic of China (the “PRC”) remained the Group’s largest market, as demand for fish rose steadily along with increasing affluence. Sales to this market surged 102.4% to US\$78.0 million in FY2006, from US\$38.5 million in FY2005. It accounted for 50.0% of FY2006 total revenue.

In FY2006, due to the enlarged harvest capacity, the Group also increased its output of high-value products such as fish roe. Korea and Japan, being the largest markets for such premium products, increased its contribution to sales significantly by 82.5% to US\$54.5 million, from US\$29.8 million in FY2005. Korea and Japan together accounted for 34.9% of FY2006 total revenue.

Similarly, the Group was able to process more frozen-at-sea fish fillets onboard its larger fleet of supertrawlers in FY2006. As a result, sales to the European market, which has a preference for such fillets, grew by an encouraging 17.8% to US\$19.7 million in FY2006, from US\$16.8 million in FY2005. Europe accounted for 12.6% of FY2006 total revenue. Along with the recent expansion into Peru, the Group also gained a new market - South America. For FY2006, the South American contribution to Group total sales remained modest at US\$1.6 million, or 1.0%.

Balance Sheet

The Group, via its Peru-domiciled subsidiary CFG Investment SAC ("CFG Investment"), issued US\$225 million in 7-year senior notes to global investors in December 2006. To mature in 2013, the notes carry an annual coupon rate of 9.25%, which will be paid semi-annually in arrears commencing on 19 June 2007. Proceeds of the notes issue are principally being used to finance the Group's acquisition programmes in Peru.

Current Assets

Accordingly, the Group's current assets increased substantially to US\$167.8 million as at 31 December 2006 from US\$42.8 million as at 31 December 2005, mainly in tandem with net proceeds received from the notes issue, as well as higher sales and the current portion of deferred charter hire made in relation to the Group's VOAs.

Deferred Expenses

	FY2006 US\$'000	FY2005 US\$'000
1st VOA ¹	2,878	1,685
2nd VOA	4,050	–
Corporate expenses	–	1,045
	<u>6,928</u>	<u>2,730</u>

Deferred charter hire

	FY2006 US\$'000	FY2005 US\$'000
Current portion		
1st VOA	5,600	5,600
2nd VOA	8,200	–
	<u>13,800</u>	<u>5,600</u>

Non-current portion

1st VOA	33,600	39,200
2nd VOA	65,600	–
	<u>99,200</u>	<u>39,200</u>

Footnote:

(1) VOA stands for Vessel Operating Agreement

Inventory

Inventory was recorded for the first time with the Group's acquisition of Alexandra in late October 2006.

Cash & Bank Balances

The Group maintained a healthy level of cash and bank balances of US\$57.7 million.

Other Receivables and Prepayments

Due to the significantly increased scope of its fishing operations in the Pacific Ocean, as well as newly established operations in Peru, the Group increased its working capital requirements and hence saw other receivables and prepayments rise to US\$68.3 million in FY2006 from US\$20.5 million in FY2005. Of the US\$47.8 million increase, US\$40.1 million was attributable to the Group's Pacific Ocean operations, which were preparing for the commencement of the annual peak fishing season that runs from January to April 2007. The other US\$7.7 million was attributable to the Peruvian operations.

Non-Current Assets

Through the series of strategic acquisitions made in Peru over FY2006, the Group also boosted its non-current assets to US\$270.0 million as at the end of the year, from US\$39.7 million one year ago. These include 4 fishmeal processing plants and 18 fishing vessels, which come attached with valuable fishmeal processing and fishing licences. Non-current assets as at the end of FY2006 also included deferred charter hire fees from the Group's first and second VOAs.

Plant, Property & Equipment

Property, plant and equipment increased to US\$89.7 million in FY2006 from US\$0.5 million in FY2005, through the acquisitions of 4 fishmeal processing plants, 18 fishing vessels and property in Peru.

Goodwill

The US\$45.0 million in goodwill was derived from the acquisition of the Peruvian companies in FY2006. It represented the excess of the purchase considerations over the fair value of the net assets of the acquired companies at the dates of acquisitions.

Fishing Licences

In Peru, fishing vessels come attached with valuable licences. These licences do not have a finite term and remain in full force and good standing as long as the applicable legal requirements are complied with.

These licences are valued at US\$24.6 million by independent professional valuers, Invalsa Ingeniería y Valuaciones S.A. Invalsa Ingeniería y Valuaciones S.A., a leading consultancy in Peru specialising in valuation and inventory assessment. It is registered with Peru financial regulator *Superintendencia de Banca y Seguros*, and its valuation methods are in accordance with both International and Peruvian valuation regulations.

Current Liabilities

On the other hand, current liabilities increased to US\$48.4 million from US\$19.4 million, due mainly to an increase in trade and other payables, accrued expenses and borrowings arising from the Peruvian operations and notes issue by CFG Investment.

Non-Current Liabilities

Non-current liabilities rose from US\$22.9 million as at 31 December 2005 to US\$276.4 million as at 31 December 2006, largely attributed to the aforementioned issuance of US\$225 million in senior notes by CFG Investment.

Other Payables and Accrued Expenses

Other payables and accrued expenses increased to US\$21.4 million in FY2006 from US\$0.8 million in FY2005. Of the US\$20.6 million increase, US\$18.3 million was related to the acquisition of the Peruvian companies which comprises:

- (1) US\$2.0 million in balance payment of the purchase consideration of the fishing companies;
- (2) US\$9.0 million in professional fees and expenses incurred in relation to the issuance of 7-year senior notes by wholly owned subsidiary CFG Investment; and
- (3) US\$7.3 million in liabilities taken up by the Group on the acquisition of the Peruvian companies.

Total Equity

Owing to increased accumulated profits and the issue of new shares on the Group's listing in January 2006, total equity increased 180.6% to US\$112.9 million as at 31 December 2006, compared to US\$40.2 million as at 31 December 2005.

Directors' Profile



Executive Directors

Mr Ng Joo Kwee, 47, is the Executive Chairman of the Company, responsible for the overall strategic development and management, overall sourcing, sales and marketing of frozen seafood products and development of the Company. Mr Ng was appointed to the Board of the Company on October 31, 2005 and last re-elected as a Director of the Company on April 25, 2006. Mr Ng is also the Executive Director of Pacific Andes International Holdings Limited ("PAIH"), a company listed on The Stock Exchange of Hong Kong Limited, as well as the Executive Director of Pacific Andes (Holdings) Limited ("PAH"), a company listed on the Singapore Exchange Securities Trading Limited. From 1983 to 1989, Mr Ng was president of a seafood trading and fishing company in Taiwan. In 1989, Mr Ng joined PAIH as General Manager of its PRC operations, responsible for daily operations, trading and sourcing activities. Mr Ng is a brother of Mr Ng Joo Siang.

Mr Sung Yu Ching, 61, is the Managing Director of the Company, responsible for the overall management, business development, strategic planning and sales and marketing functions of the Group. Mr Sung was appointed to the Board of the Company on October 31, 2005 and last re-elected as a Director of the Company on April 25, 2006. Mr Sung is presently the Chairman of Chuan-Chuan Yoo International Trade Ltd ("Chuan-Chuan"), a company engaged in the trading of seafood products, vessel spare parts and appliances, and provision of ship repairing and construction agency services. He graduated from the marine engineering department of National Taiwan Ocean College and obtained his marine engineering licence in Taiwan. From 1990 to 1997, Mr Sung worked with Tong Ta Ship Repairs Co., a ship repairing company in Taiwan and actively participated in arranging Russian fishing vessels for repair in Taiwan. In 1997, Mr Sung started his trading business and became a shareholder in Chuan-Chuan. In 1999, Mr Sung was engaged as a consultant to the PRC state-owned China National Fisheries Corporation ("CNFC") to develop fishing operations along the African east coast of the Arabian Sea.

Mr Ng Joo Siang, 48, is an Executive Director of the Company and was appointed to the Board of the Company on April 25, 2006. Mr Ng is responsible for the overall management, business development, strategic planning and sales and marketing of the Company. Mr Ng is also the Managing Director of PAIH, and an Executive Director of PAH responsible for the overall corporate policy making, strategic planning, development, investment and management of the Pacific Andes Group. Mr Ng graduated from the Louisiana State University in Baton Rouge, Louisiana, with a Bachelors degree in International Trade and Finance, and has over 20 years of experience in the trading of seafood products. Prior to joining PAH in 1986, Mr Ng was involved in the ship agency business and the chartering and operation of ocean-going vessels calling at various Asian ports. Mr Ng is a brother of Mr Ng Joo Kwee.

Mr Chan Tak Hei, 37, is the Finance Director of the Company, responsible for the overall financial management and corporate planning of the Group. Mr Chan was appointed to the Board of the Company on February 15, 2005 and was last re-elected as a Director of the Company on April 25, 2006. Mr Chan graduated from the Hong Kong Polytechnic University with a Bachelor's degree in Accountancy and is a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in February 2005, Mr Chan was working with PAIH as its Financial Controller since 1995.

Non-Executive Directors

Mr Cheng Nai Ming, 44, is a Non-Executive Director of the Company. Mr Cheng was appointed to the Board of the Company on October 31, 2005 and was last re-elected as a Director of the Company on April 25, 2006. Mr Cheng is currently the Finance Director of PAIH and PAH, positions he held since 1996. Prior to joining Pacific Andes Group in 1994, he was working as an Audit Manager at Deloitte Touche Tohmatsu. Mr Cheng graduated from the Hong Kong University with a Bachelor's Degree in Social Science in 1987 and has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1994.

Independent Directors

Dr Ong Chit Chung, 58, was appointed as an Independent Director of the Company on January 16, 2006 and is the Chairman of the Audit Committee, Remuneration Committee and Nominating Committee. Dr Ong was last re-elected as a Director of the Company on April 25, 2006. Dr Ong has experience in both the public and private sectors, having worked in several government ministries and held directorships in companies engaged in the construction, engineering, hospitality and food industries. Amongst his previous appointments, he was President of China Development Corporation Limited and Deputy Group Managing Director of QAF Limited. He is presently the President of Davos Life Science Pte Ltd. Dr Ong holds a PhD

in International History from the London School of Economics of the University of London, a Masters of Arts Degree in Military History from the Duke University in the United States and a Bachelor of Arts (First Class Honours) degree in History from the University of Singapore. Dr Ong is also a Member of Parliament for the Jurong GRC and Fellow of the Singapore Institute of Directors.

Mr Lim Soon Hock, 57, was appointed as an Independent Director of the Company on January 16, 2006 and was last re-elected as a Director of the Company on April 25, 2006. Mr Lim has more than 25 years of leadership experience as a board member, chief executive, technopreneur and investor. He was the former Vice President and Managing Director of Compaq Computer Asia Pacific Pte Ltd and was a member of the worldwide management team. From 1999 to 2003, he was the Asia Pacific President of SITA INC Asia Pacific Pte Ltd. Other senior positions which he held include being the Chairman of the Singapore Institute of Management, Chairman of the Institute of High Performance Computing, Chairman and Chief Executive Officer of Easycall International Pte Ltd and Chairman of Plan-B Technologies Pte Ltd. Mr Lim also sits on the Board of Directors of several public listed companies, governmental agencies and civic organisations. He is currently the Managing Director of PLAN-B ICAG Pte Ltd, a boutique corporate advisory firm. He holds a Bachelor of Engineering degree with Honours in Electrical Engineering from the University of Singapore and is a Fellow of the Institution of Engineers, Singapore, Institution of Electrical Engineers, UK and the Singapore Institute of Directors.

Mr Tse Man Bun, 64, was appointed as an Independent Director of the Company on January 16, 2006 and was last re-elected as a Director of the Company on April 25, 2006. Mr Tse has over 40 years working experience in the banking industry. He joined The Hongkong & Shanghai Banking Corporation Limited ("HSBC") in 1968 and retired from the institute in December 2002. During his service with the HSBC group, Mr Tse held various senior positions which included, Senior Credit Manager; Managing Director of Wayfoong Financial Limited and Wayfoong Credit Limited; Area Manager, Retail Banking; Senior Executive, Commercial Banking. After his retirement from the HSBC Group, he joined Allied Banking Corporation (HK) Limited, a restricted licence bank, as Director and Chief Executive till October 2004. In December 2004, Mr Tse joined SEA Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited, and is now Executive Director of the company. Mr. Tse is currently an Independent Non-Executive Director of HSBC Insurance (Asia) Limited, Tysan Holdings Limited and Crystal International Ltd. Apart from the banking field, Mr Tse has an in-depth understanding of the commerce and manufacturing industries.

Key Management

Bredikhin Gennady is our Fleet Manager for our fishing operations in the Pacific Ocean. He is responsible for the overall management of the fishing operations in the Pacific Ocean. His responsibilities include supervision of catch discharges, monitoring of on-board supplies, and the formulation of fishing strategies. He joined our Group as a Fleet Manager of China Fisheries International Limited (“CFIL”) in 2001. Prior to joining our Group, he was involved in the fishing operations of a fishing company in Russia from 1975 to 1997, holding the post of Overseas Department Manager. Mr Bredikhin graduated from the Kaspian Marine College in 1975.

Yao Jixiang is our Fleet Manager for our fishing operations in the Atlantic Ocean. He is responsible for the overall management of the fishing operations in the Atlantic Ocean. His responsibilities include crew management, supervision of catch discharges, monitoring of on-board supplies, the formulation of fishing strategies and the liaison with relevant governmental authorities and other regulatory bodies. He joined our Group as a Fleet Manager of CFIL in 2002. Prior to joining our Group, he worked with various companies under the China National Fisheries Corporation (“CNFC”) from 1982 to 2001 as Fleet Manager and Operations Manager for fishing operations in the Indian, Atlantic and Pacific Oceans. Mr Yao graduated from Shanghai Fishery University in 1968 with a Bachelor’s degree in Fishing.

Hu Shibao is our Fleet Manager for our fishing operations in the Middle East. He is responsible for the overall management of the fishing operations in the Middle East. His responsibilities include crew management, supervision of catch discharges, monitoring of on-board supplies, the formulation of fishing strategies and the liaison with relevant governmental authorities and other regulatory bodies. He joined our Group as a Fleet Manager of CFIL in 2002. Prior to joining our Group, he worked with various companies under CNFC from 1982 to 2001 as a Fleet Manager for fishing operations in the Middle East and Africa. Mr Hu graduated from Beijing College of Economy in 1988 with a Bachelor’s degree in Management Studies.

Roman Emelyanov is our Chief Port Engineer. He is responsible for the technical aspects of the fishing vessels, including the maintenance and repair of the fishing vessels. He graduated from Kamchatka State Marine University in 1994 with a Masters degree in Marine Engineering. He joined our Group as a mechanical engineer of CFIL in 2001. He was promoted to the position of Chief Port Engineer of the Company in 2002. Prior to joining our Group, he worked as an engineer at various fishing companies in Russia from 1996 to 2001.

Cao Hengzhen is our Liaison Manager. He is responsible for the overall management of the logistics requirements of the Group’s fishing operations in the Indian and Atlantic Oceans. He joined our Group in 2002. Prior to joining our Group, he was a diplomatic agent of the Beijing Service Bureau from August 1988 to February 1993. From March 1993 to December 2001, he worked with the group companies of CNFC, including acting as an Assistant Fleet Manager for fishing operations in Africa. Mr Cao graduated from the Beijing University of International Relations in 1988 with a Bachelor’s degree in French.

Wong Man Yuk Raymond is the Financial Controller for our Group. He is responsible for the financial management of the Group. He graduated from Hong Kong Baptist University with a Bachelor’s degree in Accountancy in 1998 and is an associate member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He was with Deloitte Touche Tohmatsu from 1998 to 2003 and before leaving the firm, he held the position of Audit Senior. From 2003 until he joined the Group in October 2005, Mr Wong was with Pacific Andes International Holdings Limited as Deputy Financial Controller.



Corporate Information



BOARD OF DIRECTORS

Executive

Ng Joo Kwee (*Executive Chairman*)
Sung Yu Ching (*Managing Director*)
Ng Joo Siang (*appointed on April 25, 2006*)
Chan Tak Hei

Non-Executive

Jiang Zuoyi (*resigned on March 7, 2007*)
Cheng Nai Ming
Lau Yu Chuen (*Alternate Director to Cheng Nai Ming;
ceased on March 7, 2007*)

Dr Ong Chit Chung (*Independent Director*)
Lim Soon Hock (*Independent Director*)
Tse Man Bun (*Independent Director*)

AUDIT COMMITTEE

Dr Ong Chit Chung (*Chairman*)
Lim Soon Hock
Tse Man Bun

NOMINATING COMMITTEE

Dr Ong Chit Chung (*Chairman*)
Lim Soon Hock
Tse Man Bun
Cheng Nai Ming

REMUNERATION COMMITTEE

Dr Ong Chit Chung (*Chairman*)
Lim Soon Hock
Tse Man Bun
Cheng Nai Ming

COMPANY SECRETARIES

Maurice Ngai, FCS, FCIS
Yvonne Choo, FCIS

SOLICITORS

David Lim & Partners

AUDITORS

Deloitte & Touche
Certified Public Accountants
6 Shenton Way #32-00
DBS Building, Tower 2
Singapore 068809
Partner-in-charge: Wong-Yeo Siew Eng
Date of appointment: May 25, 2005

PRINCIPAL BANKERS

Landsbanki Islands HF
Austurstraeti 11
155 Reykjavik
Iceland

The Hongkong and Shanghai Banking Corporation
HSBC Main Building
1 Queen's Road Central
Hong Kong

Oversea-Chinese Banking Corporation Ltd
Hong Kong Main Office
9th Floor, Nine Queen's Road Central
Hong Kong

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350 GT
George Town, Grand Cayman
Cayman Islands

PRINCIPAL OFFICE

Room 3312-3314
Hong Kong Plaza
188 Connaught Road West
Hong Kong
Tel: 852-2548 2666
Fax: 852-2548 9666
Email: ir@chinafish.com

CAYMAN ISLANDS REGISTRAR AND SHARE TRANSFER AGENT

Appleby Corporate Services (Cayman) Ltd
Clifton House
75 Fort Street
P.O. Box 1350 GT
George Town, Grand Cayman
Cayman Islands

SINGAPORE SHARE TRANSFER AGENT

B.A.C.S. Private Limited
63 Cantonment Road
Singapore 089758
Tel: 65-6323 6200
Fax: 65-6323 6990

Report on Corporate Governance

The Directors are committed to maintaining a high standard of corporate governance within the Group and China Fishery Group Ltd (the "Company") and confirm that the Company has adhered to the principles and guidelines as set out in the Singapore Code of Corporate Governance introduced in April 2001 and amended in 2005 (the "Code").

Board Matters

Principle 1: Board's Conduct of its Affairs

The Board oversees the business affairs of the Company and assumes responsibility for the Group's overall strategic plans, key operational initiatives, major funding and investment proposals, financial performance reviews and corporate governance practices.

The Board is supported by the Audit Committee ("AC"), Remuneration Committee ("RC") and Nominating Committee ("NC").

The Board conducts regular scheduled meetings at least four times a year and meets as and when warranted by particular circumstances between these scheduled meetings. The Company's Articles of Association provide for meetings to be held via telephone and video conferencing.

The Company has in place orientation programmes for newly appointed Directors to ensure that they are familiar with the Group structure, its business and operations. Newly appointed Directors are expected to participate in the orientation programmes which include meetings with the Chairman/Managing Director and the Finance Director to obtain insight information and an understanding of the business. The Company also has a training budget for its Directors to attend courses and seminars which is utilised on a need basis. The Company relies on Directors to update themselves on new laws, regulations and changing commercial risks.

Board's approval is required for matters likely to have a material impact on the Group's operations as well as matters other than in the ordinary course of business.

Details of directors' attendance at Board and Board committees meetings held in FY2006 are summarised in the table below:

	Board	Audit Committee	Remuneration Committee	Nominating Committee
Ng Joo Kwee	4	–	–	–
Sung Yu Ching	4	–	–	–
Ng Joo Siang (*)	4	–	–	–
Chan Tak Hei	4	–	–	–
Jiang Zuoyi	4	–	–	–
Cheng Nai Ming				
Lau Yu Chuen (Alternate director to Cheng Nai Ming)	5	–	1	1
Dr Ong Chit Chung	5	6	1	1
Lim Soon Hock	5	6	1	1
Tse Man Bun	5	6	1	1
Total held in FY2006	5	6	1	1

Note:

(*) Ng Joo Siang was appointed an Executive Director of the Company on 25 April 2006.

Principle 2: Board Composition

The Board comprises 8 Directors. The Board is of the view that its current size is appropriate, taking into account the nature and scope of operations of the Group.

As at the date of this report, the Board comprises the following Directors:

Executive Directors:

Ng Joo Kwee (*Executive Chairman*)

Sung Yu Ching (*Managing Director*)

Ng Joo Siang (*appointed on 25 April 2006*)

Chan Tak Hei

Non-executive Directors:

Cheng Nai Ming

Independent non-executive Directors:

Dr Ong Chit Chung

Lim Soon Hock

Tse Man Bun

The NC, which reviews the independence of each Director on an annual basis, adopts the Code's definition of what constitutes an independent Director.

As a Group, the Directors bring with them a broad range of expertise and experience in areas such as accounting, finance, business and management experience, industry knowledge, strategic planning experience and customer-based experience and knowledge. The diversity of the Directors' experience allows for the useful exchange of ideas and views. The profile of all Board members is set out in the section entitled 'Directors' Profile'.

The Non-executive Directors aim to assist in the development of proposals on strategy by constructively challenging management. The Non-executive Directors would also review the performance of Management in meetings.

Principle 3: Chairman and Managing Director

Currently, the Executive Chairman of the Company is Ng Joo Kwee. Mr Ng is one of the founders of the Group and plays a key role in developing the business of the Group and provides the Group with strong leadership and vision. Mr Ng is responsible for the workings of the Board and ensures the integrity and effectiveness of the governance process of the Board.

The Company's Managing Director ("MD") is Sung Yu Ching, who is responsible for the day-to-day running of the Group as well as the exercise of control of the quality, quantity and timeliness of information flow between the Board and Management.

There is a clear division of responsibilities between the Chairman and the MD. This ensures a balance of power and authority at the top, as no one individual represents a considerable concentration of power. The roles of Chairman and MD are separate to ensure an appropriate balance of power, increased accountability and greater capacity to the Board for independent decision making.

All major decisions made by the Executive Chairman and MD are endorsed by the Board. Their performance and appointments to the Board are reviewed periodically by the NC and their remuneration packages are reviewed periodically by the RC. Both the NC and RC comprise Non-executive and Independent non-executive directors. As such, the Board believes that there are adequate safeguards in place against an unbalanced concentration of power and authority in single individuals.

Principle 4: Board Membership

The Directors who held office during the year end up to the date of this report are disclosed on page 24 (Report of the Directors) of this Annual Report. Their profiles are disclosed on page 17 (Corporate Information) and pages 13 and 14 (Directors' Profile) of this Annual Report.

Principle 5: Board Performance*Nominating Committee*

The NC, regulated by a set of written terms of reference, comprises 4 members, a majority of whom are Independent non-executive Directors, as follows:

Dr Ong Chit Chung (*Chairman*)

Lim Soon Hock

Tse Man Bun

Cheng Nai Ming

The NC is chaired by Dr Ong Chit Chung, an Independent non-executive Director not associated with a substantial shareholder.

Report on Corporate Governance

The principle functions of the NC stipulated in its terms of reference are summarised as follows:

- (a) reviews and makes recommendations to the Board on all board appointments;
- (b) reviews the Board structure, size and composition and makes recommendations to the Board with regards to any adjustment that are deemed necessary;
- (c) determines the independence of the Board;
- (d) makes recommendations to the Board for the continuation of services of any director who has reached the age of 70 (seventy) or otherwise;
- (e) assesses the effectiveness of the Board and the academic and professional qualifications of each individual director; and
- (f) reviews and recommend directors retiring by rotation for re-election at each Annual General Meeting ("AGM").

The NC had reviewed the independence of each Director for the financial year ended 31 December 2006 in accordance with the Code's definition of independence and is satisfied that one-third of the Board comprised Independent non-executive Directors.

In FY2006, the NC adopted a formal system of evaluating the Board as a whole. A Board performance evaluation was carried out to assess and evaluate the Board's composition, size and expertise, timeliness of Board information as well as Board accountability and processes.

In accordance with the Company's Articles of Association, each Director is required to retire at least once every three years by rotation and all newly appointed Directors will have to retire at the next AGM following their appointments. The retiring Directors are eligible to offer themselves for re-election. The NC had recommended the re-appointment of the following Directors who will be retiring at the forthcoming AGM:

- (1) Ng Joo Siang
- (2) Ng Joo Kwee
- (3) Chan Tak Hei
- (4) Cheng Nai Ming

The Board has accepted the NC's recommendation and according, the above-mentioned Directors will be offering themselves for re-election.

Principle 6: Access to Information

All Directors have independent access to the Group's senior management and the Company Secretary. All Directors are provided with complete and adequate information prior to Board meetings and on an ongoing basis. The Company Secretary provides secretarial support to the Board and ensures adherence to Board procedures and relevant rules and regulations which are applicable to the Company. The Company Secretary attends all Board and Board committees meetings.

Should Directors, whether as a group or individually, need independent professional advice to fulfill their duties, such advice will be obtained from a professional firm of the director's choice, the cost of which will be borne by the Company.

Remuneration Committee

Principle 7: Procedures for Developing Remuneration Policies

Principle 8: Level and Mix of Remuneration

Principle 9: Disclosure on Remuneration

The RC, regulated by a set of written terms of reference, comprises 4 members, a majority of whom are Independent non-executive Directors, as follows:

Dr Ong Chit Chung (*Chairman*)
Lim Soon Hock
Tse Man Bun
Cheng Nai Ming

The RC reviews and recommends to the Board (a) the remuneration packages of all Directors and senior executives of the Group, (b) fees for Independent non-executive Directors subject to shareholders' approval at the AGM, and (c) all service contracts and terms of employment of the Executive Directors and senior executives. The RC also has access to external professional advice on remuneration matters, if required.

The RC had recommended to the Board an amount of HK\$720,000 (equivalent to US\$92,308 or S\$141,480) as Directors' fees for the year ending December 31, 2007, to be paid monthly in arrears. The Board will table this recommendation at the forthcoming AGM for shareholders' approval.

Other than the Independent non-executive Directors' fees which are set in accordance within a remuneration framework, the Board has decided that the policy on annual remuneration will not be tabled at the forthcoming AGM.

Directors' Remuneration

The remuneration for the year ended December 31, 2006 is shown below:

Remuneration Bands	Year 2006 No. of Directors	Year 2005 No. of Directors
S\$500,000 and Above	–	–
S\$250,000 to Below S\$500,000	1	–
Below S\$250,000	8	6
	<hr/>	<hr/>
Total	<u>9</u>	<u>6</u>

Employees' Remuneration

The remuneration paid to each of the top five executives per annum (in terms of salary and who are not directors of the Company) is less than S\$250,000.

Although the Code recommends the disclosure of the names of individual Director and executives within the bands of S\$250,000, the Board has not adopted this practice because it is of view that such disclosure may be detrimental to the Company's interests as it may lead to the poaching of executives within a highly competitive industry.

The existing service agreements for the Executive Directors, which commenced on 25 January 2006, are for a period of 5 years. The service agreement provides for termination by the Executive Directors or the Company upon giving not less than 6 months' notice in writing.

With the exception of Ng Joo Siang and Ng Joo Kwee, there were no employees of the Company who are immediate family members of a Director or the Chairman and whose remuneration exceeds S\$150,000 during the financial year under review. Ng Joo Siang (Executive Director) is the brother of Ng Joo Kwee, Executive Chairman.

For the financial year under review, the Company does not have a long-term incentive or share option scheme in place.

Principle 10: Accountability

The Board provides shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a quarterly basis.

Management provides the Board with management accounts of the Group's performance, position and prospects on a regular basis.

Principle 11: Audit Committee

The AC, regulated by a set of written terms of reference, comprises 3 Independent non-executive Directors. The members of the AC are:

Dr Ong Chit Chung (*Chairman*)
Lim Soon Hock
Tse Man Bun

The AC meets at least four times a year and as and when deemed appropriate to carry out its functions.

The AC has full access to and the co-operation of Management has full discretion to invite any Director or executive officer to attend its meetings and has been given adequate resources to enable it to discharge its functions.

Report on Corporate Governance

The AC performs the following functions:

- Reviews the annual and quarterly financial statements of the Company and the Group before submission to the Board for adoption;
- Reviews with the external auditors, their audit plans and audit reports;
- Reviews the cooperation given by the Company's officers to the external auditors;
- Nominates and reviews the appointment or re-appointment of external auditors;
- Reviews interested person transactions;
- Reviews the independence of the external auditors annually;
- Reviews, on quarterly basis, the transaction made under the CIFHK Management Agreement as described on pages 80 to 82 of the Company's Prospectus dated January 16, 2006 (if any); and
- Reviews all hedging policies that the Company has with regard to the costs of bunkers and foreign currencies (if any).

The AC reviews arrangements by which the staff may, in confidence, report possible improprieties which may cause financial or non-financial loss of the Company. The objective is to ensure that arrangements are in place, for the independent investigation of such concerns and for appropriate follow-up action.

The AC had reviewed the non-audit services provided by the external auditors, Deloitte & Touche and is of the opinion that the provision of such services does not affect their independence.

Annually, the AC meets with the external auditors without the presence of Management.

The AC had recommended the re-appointment of Deloitte & Touche at the forthcoming AGM.

Principle 12: Internal Controls

Principle 13: Internal Audit ("IA")

The Board understands the importance of maintaining a sound system of internal controls and audit. The Company has set up an internal audit function which reports directly to the AC. *The internal auditor has adopted the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.*

The AC, on an annual basis, will assess the effectiveness of the IA by examining the scope of the IA work and its independence of areas reviewed and the internal auditor's report.

The AC will also meet the internal auditor without the presence of Management, annually.

Principle 14: Communication with Shareholders

Principle 15: Greater Shareholder Participation

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders. It is the Board's policy that shareholders be informed of all major developments within the Group.

Information is communicated to the shareholders on a timely basis through:

- (a) announcements and press releases via SGXNET on major developments of the Group;
- (b) financial statements containing a summary of the financial information and affairs of the Group for the quarterly and full year via SGXNET;
- (c) annual reports sent to all shareholders; and
- (d) notices of and explanatory notes for annual general meetings and extraordinary general meetings.

At the AGM, shareholders are given opportunities to voice their views and seek clarifications. There are separate resolutions on each substantially separate issue.

The Chairmen of the AC, RC and NC as well as the external auditors will be available at the forthcoming AGM to address any queries raised by shareholders.

Securities Transactions

The Company has adopted an internal code on dealings in securities by officers of the Company and its subsidiaries to provide guidance to its officers on dealing in the Company's shares. All Directors and officers of the Company and its subsidiaries who have access to "price sensitive" information are required to observe this code and are required to confirm their compliance annually.

The Directors and officers have been informed not to deal in the Company's shares whilst in possession of "price sensitive" information and during the periods commencing at least 31 days and 14 days prior to the announcement of the Company's full-year results and results for first three quarters respectively.

Interested Person Transactions

The Company has adopted an internal policy governing procedures for the identification, approval and monitoring of interested person transactions. All interested person transactions are subject to review by the AC.

There were no interested person transactions for FY2006 undertaken pursuant to the shareholders' general mandate under Rule 920 of the Listing Manual of the SGX-ST.

Material Contracts

Save for the service agreements entered with Ng Joo Kwee, Sung Yu Ching and Chan Tak Hei and the interested person transactions conducted under the Company's shareholders' general mandate, no material contract involving the interests of any director or controlling shareholders of the Company has been entered into by the Company or any of its subsidiary companies in FY2006.

Risk and Management

The Company has not put in place a Risk Management Committee. However, Management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant control policies and procedures and highlights all significant matters to the directors and AC.

Report of the Directors

The directors present their report together with the audited consolidated financial statement of the Group and balance sheet and statement of changes in equity of the Company for the year ended December 31, 2006.

1 DIRECTORS

The directors of the Company in office at the date of this report are:

Executive directors:

Ng Joo Kwee – Executive Chairman

Sung Yu Ching – Managing Director

Ng Joo Siang – (Appointed on April 25, 2006)

Chan Tak Hei

Non-executive director:

Cheng Nai Ming

Independent directors:

Dr Ong Chit Chung

Lim Soon Hock

Tse Man Bun

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company except as follows:

Name of director and company in which interest is held	Direct		Deemed	
	At beginning of year or date of appointment, if later	At end of year	At beginning of year or date of appointment, if later	At end of year
<u>The Company</u>			<u>Ordinary shares of US\$0.10 each</u>	
Sung Yu Ching ^(note)	–	–	305,040,000	305,040,000
Chan Tak Hei	–	20,000	–	–
<u>Penultimate holding company,</u> <u>Pacific Andes International Holdings Limited</u>			<u>Ordinary shares of HK\$0.10 each</u>	
Cheng Nai Ming	3,745,280	4,094,336	–	–

Note:

Sung Yu Ching is deemed to hold a total of 305,040,000 shares by virtue of his interests in the shares of Jade China Investments Limited, a shareholder of Super Investments Limited. Super Investments Limited is the immediate holding company of the Company.

The directors' interests in the shares of the Company at January 21, 2007 were the same at December 31, 2006.

4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a Company in which he has a substantial financial interest except for salaries, bonuses and other benefits as disclosed in the financial statements. Certain directors received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

5 SHARE OPTIONS

a. Option to take up unissued shares

During the financial year, no option to take up unissued shares of the Company or any corporation in the Group was granted.

b. Option exercised

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

c. Unissued shares under option

At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

6 AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to accept re-appointment.

On behalf of the directors

Sung Yu Ching
Managing Director

Chan Tak Hei
Finance Director

April 12, 2007

Auditors' Report

DELOITTE.

AUDITORS' REPORT TO THE MEMBERS OF
CHINA FISHERY GROUP LIMITED

We have audited the accompanying financial statements of China Fishery Group Limited which comprise the balance sheets of the Group and the Company as at December 31, 2006, the profit and loss statement, statement of changes in equity and cash flow statement of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 72.

DIRECTORS' RESPONSIBILITY

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

Deloitte & Touche

Certified Public Accountants
Singapore

Wong-Yeo Siew Eng

Partner
(Appointed on May 25, 2005)

April 12, 2007

Balance Sheets
December 31, 2006

	Note	Group		Company	
		2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
ASSETS					
Current assets					
Cash and bank balances	7	57,668	11,829	9,542	–
Trade receivables	8	8,228	2,143	–	–
Other receivables and prepayments	9	68,254	20,505	10,768	7,095
Deferred expenses	10	6,928	2,730	–	1,045
Inventories	11	12,895	–	–	–
Current portion of deferred charter hire	12	13,800	5,600	–	–
Total current assets		<u>167,773</u>	<u>42,807</u>	<u>20,310</u>	<u>8,140</u>
Non-current assets					
Deferred charter hire	12	99,200	39,200	–	–
Property, plant and equipment	13	89,650	524	–	–
Deposit	9	11,600	–	–	–
Goodwill	14	44,989	–	–	–
Other intangible assets	15	24,575	–	–	–
Subsidiaries	16	–	–	62,343	30,504
Total non-current assets		<u>270,014</u>	<u>39,724</u>	<u>62,343</u>	<u>30,504</u>
Total assets		<u><u>437,787</u></u>	<u><u>82,531</u></u>	<u><u>82,653</u></u>	<u><u>38,644</u></u>

Balance Sheets
December 31, 2006

	Note	Group		Company	
		2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
LIABILITIES AND EQUITY					
Current liabilities					
Trade payables	17	11,013	1,448	–	–
Other payables and accrued expenses	18	21,435	845	82	35
Income tax payable		2,923	–	–	–
Fair value of a financial guarantee contract	2	–	–	525	–
Current portion of finance leases	19	2,719	–	–	–
Bank overdrafts and current portion of bank loans	20	10,354	17,142	–	–
Total current liabilities		48,444	19,435	607	35
Non-current liabilities					
Fair value of a financial guarantee contract	2	–	–	3,150	–
Finance leases	19	3,744	–	–	–
Bank loans	20	31,932	22,858	–	–
Senior notes	21	216,043	–	–	–
Statutory employees' profit share	22	6,678	–	–	–
Deferred tax liabilities	23	18,028	–	–	–
Total non-current liabilities		276,425	22,858	3,150	–
Capital and reserves					
Share capital	24	36,204	30,504	36,204	30,504
Reserves		76,714	9,734	42,692	8,105
Total equity		112,918	40,238	78,896	38,609
Total liabilities and equity		437,787	82,531	82,653	38,644

See accompanying notes to financial statements.

Consolidated Profit and Loss Statement
Year ended December 31, 2006

	Note	Group	
		2006 US\$'000	2005 US\$'000
Revenue	26 & 27	156,041	90,585
Cost of sales		(3,928)	–
Charter hire expenses		(31,328)	(15,093)
Vessel operating costs		(61,195)	(37,589)
Gross profit		59,590	37,903
Other operating income	28	2,586	117
Selling expenses		(1,405)	(4,744)
Administrative expenses		(6,932)	(797)
Finance costs	29	(5,423)	(1,821)
Profit before tax		48,416	30,658
Income tax expense	30	(448)	–
Profit for the year	31	<u>47,968</u>	<u>30,658</u>
Basic earnings per share (US cents)	32	<u>13.39</u>	<u>10.05</u>
Diluted earnings per share (US cents)	32	<u>13.39</u>	<u>10.05</u>

See accompanying notes to financial statements.

Statements of Changes in Equity
Year ended December 31, 2006

	Share capital US\$'000	Share premium US\$'000	Revaluation reserve US\$'000	Merger reserve US\$'000	Retained earnings US\$'000	Total US\$'000
Group						
Balance at January 1, 2005	30,504	–	–	(30,503)	20,464	20,465
Profit for the year	–	–	–	–	30,658	30,658
Final dividend of US\$5,885 per ordinary share in respect of financial year 2004 *	–	–	–	–	(5,885)	(5,885)
Interim dividend of US1.64 cents per ordinary share in respect of financial year 2005 **	–	–	–	–	(5,000)	(5,000)
Balance at January 1, 2006	30,504	–	–	(30,503)	40,237	40,238
Profit for the year	–	–	–	–	47,968	47,968
Gain on revaluation of properties	–	–	58	–	–	58
Total recognised income for the year	–	–	58	–	47,968	48,026
Shares issued at initial public offering [Note 24(b)]	5,700	35,233	–	–	–	40,933
Final dividend of US1.49 cents per ordinary share in respect of financial year 2005	–	–	–	–	(5,410)	(5,410)
Interim dividend of US3.00 cents per ordinary share in respect of financial year 2006	–	–	–	–	(10,869)	(10,869)
Balance at December 31, 2006	<u>36,204</u>	<u>35,233</u>	<u>58</u>	<u>(30,503)</u>	<u>71,926</u>	<u>112,918</u>

Statements of Changes in Equity
Year ended December 31, 2006

	Share capital US\$'000	Share premium US\$'000	Retained earnings US\$'000	Total US\$'000
Company				
Balance at January 1, 2005	***	–	–	***
Issue of shares pursuant to restructuring exercise (Note 24)	30,504	–	–	30,504
Profit for the year	–	–	13,105	13,105
Interim dividend of US1.64 cents per ordinary share in respect of financial year 2005	–	–	(5,000)	(5,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at January 1, 2006	30,504	–	8,105	38,609
Profit for the year	–	–	15,633	15,633
Shares issued at initial public offering [Note 24(b)]	5,700	35,233	–	40,933
Final dividend of US1.49 cents per ordinary share in respect of financial year 2005	–	–	(5,410)	(5,410)
Interim dividend of US3.00 cents per ordinary share in respect of financial year 2006	–	–	(10,869)	(10,869)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at December 31, 2006	<u>36,204</u>	<u>35,233</u>	<u>7,459</u>	<u>78,896</u>

* This pertained to US\$5,885,000 final dividend in respect of financial year 2004 declared and paid in financial year 2005 by the former holding company, China Fisheries International Limited, prior to the reorganisation of the Group.

** This was paid in respect of 305,040,000 ordinary shares existing after the sub-division of shares on July 6, 2005 [Note 24(a)].

*** Issued capital: US\$1

See accompanying notes to financial statements.

Consolidated Cash Flow Statement
Year ended December 31, 2006

	Note	Group	
		2006 US\$'000	2005 US\$'000
Operating activities			
Profit before income tax		48,416	30,658
Adjustments for:			
Amortisation of deferred charter hire		13,800	5,600
Depreciation expense		2,100	54
Interest expense		5,423	1,821
Interest income		(207)	(67)
Excess of fair value of net assets over cost of business combination		(828)	–
Operating cash flows before movements in working capital		68,704	38,066
Trade receivables		(67)	(1,591)
Other receivables and prepayments		(38,046)	(20,500)
Deferred expenses		(3,984)	70
Inventories		(10,697)	–
Vessel operating deposits		–	1,450
Trade payables		695	(887)
Other payables and accrued expenses		1,958	(1,781)
Statutory employees' profit share		165	–
Cash generated from operations		18,728	14,827
Interest paid		(4,478)	(1,307)
Income tax paid		(1,595)	–
Net cash from operating activities		12,655	13,520
Investing activities			
Purchase of property, plant and equipment (Note A)		(7,485)	(556)
Acquisition of subsidiaries	33	(105,117)	–
Purchase of fishing permits		(2,122)	–
Deposit for acquisition of subsidiary	9	(11,600)	–
Prepayment of charter hire		(82,000)	(26,000)
Interest received		207	67
Net cash used in investing activities		(208,117)	(26,489)
Financing activities			
Net proceeds from issuing shares		40,933	–
Net proceeds from issuing senior notes		216,043	–
Proceeds from bank loans, net of repayments		1,856	40,000
Repayments of obligations under finance leases		(1,682)	–
Repayment to a shareholder		–	(16,400)
Dividends paid		(16,279)	(10,885)
Net cash from financing activities		240,871	12,715
Net increase (decrease) in cash and cash equivalents		45,409	(254)
Cash and cash equivalents at beginning of year		11,829	12,083
Cash and cash equivalents at end of year		57,238	11,829
Cash and cash equivalents consist of:			
Cash at bank (Note 7)		57,318	10,425
Cash on hand (Note 7)		350	1,404
Bank overdraft (Note 20)		(430)	–
		57,238	11,829
Note A			
Purchase of property, plant and equipment		9,084	556
Less: Property, plant and equipment purchased under finance lease arrangements		(1,599)	–
Cash payments on purchase of property, plant and equipment		7,485	556
See accompanying notes to financial statements.			

1 GENERAL

- (a) The Company is incorporated in Cayman Islands with its principal place of business in the Republic of China and registered office at Clifton House, 75 Fort Street, P.O. Box 1350 GT, George Town, Grand Cayman, Cayman Islands. The Company's shares are listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in United States dollars and all values are rounded to the nearest thousand (US\$'000) except when otherwise indicated.

The principal activities of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 16 to the financial statements.

- (b) The Group operated the following number of vessels as of the following dates:

	December 31, 2006	December 31, 2005
Pacific Ocean	14	7
Peruvian waters	18	–
	<u>32</u>	<u>7</u>

The Group also managed the following number of vessels as of the following dates:

	December 31, 2006	December 31, 2005
Atlantic Ocean	19	19
Indian Ocean	8	8
	<u>27</u>	<u>27</u>

- (c) A subsidiary, China Fisheries International Limited ("CFIL") has entered into a vessel operating agreement ("First VOA") with a third party, Perun Limited ("Perun") (referred to as "Arranger") to procure fishing vessels for deep sea fishing. The First VOA (inclusive of addendums thereto) covers a term of 10 years from January 1, 2004. CFIL prepaid charter hire for the 10 years, amounting to US\$56 million. Perun has granted an irrevocable option to CFIL to extend the term of the agreement for another 10 years after the initial 10 years. Seven fishing vessels operate under the First VOA. Perun commits to replace these fishing vessels under certain circumstances, at the request of CFIL.

On February 20, 2006, CFIL entered into another vessel operating agreement ("Second VOA") with a third party, Alatir Limited ("Alatir") (also referred to as "Arranger") to procure fishing vessels for deep sea fishing. Seven fishing vessels operate under the Second VOA.

The terms and conditions of the Alatir VOA are similar to those of the First VOA.

The agreed sum to be prepaid by CFIL in satisfaction of the entire fixed charter hire for the initial 10 years under the Second VOA is US\$82 million. This option was exercised by CFIL by placing a non-interest bearing deposit of US\$50 million with Alatir in March 2006. A further sum of US\$26 million was paid during the second quarter of 2006 and the remaining balance of US\$6 million prepayment was paid during the third quarter of 2006.

1 GENERAL (continued)

- (d) Effective from January 1, 2005, CFIL entered into a vessel management agreement with a related party, China International Fisheries Hong Kong Limited ("CIFHK"). Under the terms of the vessel management agreement, CFIL manages 27 fishing vessels for CIFHK in consideration of a management fee determined at 62.5% of the net profit derived by CIFHK from these 27 vessels, such net profit to be determined for the fleet as a whole. For the purpose of calculating management fees payable by CIFHK to CFIL, net profits are determined after deduction of fixed charter hire. If the management fee calculated on this basis is a negative amount, CFIL has to pay to CIFHK this negative amount.

The vessel management agreement is for a term of three years from January 1, 2005. CIFHK has granted an irrevocable option to CFIL to extend the management period for another three years after the expiry of the initial three years.

The vessel management agreement commits CIFHK to replace under certain circumstances at the request of CFIL and may include additional new vessels mutually agreed by both parties.

- (e) The basis of presenting comparative financial statements for the financial year ended December 31, 2005 is set out in Note 37.
- (f) The consolidated financial statements of the Group and balance sheet and statement of changes in equity of the Company for the financial year ended December 31, 2006 were authorised for issue by the Board of Directors on April 12, 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING – The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the financial statements and are drawn up in accordance with the Singapore Financial Reporting Standards ("FRS").

In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") issued by the Council on Corporate Disclosure and Governance that are relevant to its operations and effective for annual periods beginning on or after January 1, 2006. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years except as disclosed below and in the notes to the financial statements.

Amendments to FRS 39 Financial Instruments :

Recognition and Measurement on financial guarantee contracts

FRS 39 has been revised to require an issuer of financial guarantee contracts to recognise such contracts initially at fair value and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less, when appropriate, cumulative amortisation. The amount amortised is the deemed guarantee income for the issuer.

In December 2006, the Company provided financial guarantee on a subsidiary's senior notes. The Company recognised fair value of US\$3,675,000 on the balance sheet as additional investment in the subsidiary and a financial guarantee contract liability (Current: US\$525,000; Non-current: US\$3,150,000). As the financial guarantee was provided at the end of the financial year, the financial guarantee obligation was not amortised for the current financial year and no financial guarantee income was recognised by the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The adoption of the amendments to FRS 39 has no effect on the Group's financial statements for the current or prior years.

At the date of authorisation of these financial statements, the following FRSs, INT FRSs and amendments to FRSs relevant to the Group were issued but not effective:

FRS 107	– Financial Instruments: Disclosures
FRS 108	– Operating Segments
INT FRS 110	– Interim Financial Reporting and Impairment
INT FRS 111	– FRS 102 – Group and Treasury Share Transactions

Amendments to FRS 1 Presentation of Financial Statements on capital disclosures.

Consequential amendments were also made to various standards as a result of these new/revised standards.

The application of FRS 107 and the consequential amendments to other FRS will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the Company and Group's financial instruments and the objectives, policies and processes for managing capital.

Other than FRS 107, the directors anticipate that the adoption of the above FRS and INT FRS in future periods will have no material impact on the financial statements of the Company and of the Group in the period of their initial adoption.

BASIS OF CONSOLIDATION – The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss statement from the effective date of acquisition or up to the effective of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

In the Company's financial statements, investment in subsidiaries is carried at cost less any impairment in net recoverable value that has been recognised in the profit and loss statement.

COMMON CONTROL BUSINESS COMBINATION OUTSIDE THE SCOPE OF FRS 103 – A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The restructuring exercise described in Note 5(b) resulted in a business combination involving common control entities, and accordingly the accounting treatment is outside the scope of FRS 103. For such common control business combinations, merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the consolidated financial statements.

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognised the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the financial statements of the constituent entities prior to the common control combination. The carrying amounts are included as if consolidated financial statements had been prepared by the controlling party, including adjustments required for conforming the combined entity's accounting policies and applying those policies to all periods presented. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination. The effects of all transactions between the combining entities or businesses, whether occurring before or after the combination, are eliminated in preparing the consolidated financial statements of the combined entity.

Merger reserve represents the difference between the nominal amount of the share capital of the combining entities at the date on which it was acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition.

BUSINESS COMBINATIONS WITHIN THE SCOPE OF FRS 103 – Where there is no common control prior to acquisition, 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 Group in exchange for 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 FRS 103 are recognised at their fair values at the acquisition date.

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

FINANCIAL INSTRUMENTS – Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with banks and bank overdrafts that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impaired. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment 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 instruments

Classification as debt or equity

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

Equity instruments

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 are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans and senior notes are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability to the initial fair value.

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less, when appropriate, cumulative amortisation. The amount amortised on a straight-line-basis over the period of the guarantee is the deemed guarantee income for the issuer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 lessor

Rental income from operating leases is recognised on a 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 on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Company 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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Deferred expenses

Expenses incurred in catching fish and other marine catches during voyages are deferred in the balance sheet and released to the profit and loss statement as expenses when the fish and marine catches are sold and revenue is recognised for the sale. Expenses on each voyage are deferred to the extent that there is reasonable probability of recovery from sale of fish and other marine catches from that voyage. When it is probable that the costs incurred or to be incurred on a voyage will exceed the estimated value of the catches, the expected loss is recognised as an expense in the profit and loss statement immediately.

The Group pays charter hire fees based on fixed rates and variable rates based on contracted percentages of the annual operating profit attributable to the vessels procured by Perun and Alatir [Note 1(c)]. As the fixed portions of charter hire cost are payable during the charter hire period regardless of whether the vessels are deployed (save for certain exceptions during the earlier part of the charter hire), the Group expenses fixed charter hire cost on a time-proportionate basis in the profit and loss statement and does not include this cost in deferred expenses. Variable charter hire costs are determined when the revenue from the sale of fish and marine products can be determined. Variable charter hire cost is accrued as an expense at the same time when revenue is recognised.

Expenses incurred in connection with preparation for the proposed listing of the Group on the exchange of Singapore Exchange Securities Trading Limited were recorded as deferred expenses in the balance sheet. They were subsequently deducted against the share premium (a component of shareholders' equity) arising from the issue of new shares in the Company at a premium over the par value of the new shares.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVENTORIES – Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of processing and costs to be incurred in marketing, selling and distribution.

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 profit and loss statement as charter hire expense proratably over the period for which the prepayment is made and the benefits are expected to accrue.

PROPERTY, PLANT AND EQUIPMENT – Buildings held for administrative purposes are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of such buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the profit and loss statement, in which case the increase is credited to profit and loss statement to the extent of decrease previously charged to the profit and loss statement. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit and loss statement to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit and loss statement. On subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

Properties which are part of the processing plants and machinery are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method on the following bases:

Freehold and leasehold buildings	– 33 years or the lease term of 25 years, if shorter
Fishing vessels	– 10 to 17 years
Fishing nets	– 4 years
Plant and machinery	– 10 years
Vehicles	– 20 years
Furniture, fittings and office equipment	– 4 to 10 years

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceed and the carrying amount of the asset and is recognised in the profit and loss statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOODWILL – Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are not amortised. Each period, the useful lives of such assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy below.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported on the same basis as intangible assets acquired separately.

IMPAIRMENT OF ASSETS EXCLUDING GOODWILL – At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

PROVISIONS – Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

REVENUE RECOGNITION – Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of fishes and related products

Revenue from the sale of fishes and related products are recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Management fee income is recognised when the services are rendered.

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 discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BORROWING COSTS – Borrowing costs are recognised in the profit and loss statement in the period in which they are incurred.

RETIREMENT BENEFIT COSTS – Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

EMPLOYMENT LEAVE ENTITLEMENT – Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

INCOME TAX – 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 profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate 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 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 except where the Company 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.

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 based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION – The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are presented in United States dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. 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 retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in United States dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities) are taken to the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Carrying amount of deferred charter hire

As at December 31, 2006, the carrying amount of deferred charter hire (Note 12) was US\$113,000,000 (2005: US\$44,800,000). The operation of vessels under the VOAs with Perun and Alahir have been profitable after deducting amortisation of the deferred charter hire over the periods for which the charter hires have been prepaid. The directors expect the operations to remain profitable in the foreseeable future and the carrying amount of the deferred charter hire to be recoverable from future operations.

Carrying amount of fishing vessels and fishing permits of CFG Investment S.A.C and Pesquera Isla Blanca S.A.

The carrying amount of fishing vessels and fishing permits of CFG Investment S.A.C. and Pesquera Isla Blanca S.A. totalled US\$26,383,000 and US\$24,575,000, respectively, as at December 31, 2006. Determining whether the carrying values of these assets can be realised requires an estimation of the value in use of the cash-generating units and a suitable discount rate in order to calculate present value. Management has evaluated these projections using assumptions on catch quantities, prices of catch and operating costs after considering efficiencies that can be achieved when the operations become part of the Group's larger operations. Based on these evaluations, management is of the view that the carrying amounts of the fishing vessels and fishing permits are realisable through future operations.

Carrying amount of goodwill

The carrying amount of goodwill arose from the acquisitions of CFG Investment S.A.C. and its subsidiaries, prior to the merger of these subsidiaries with CFG Investment S.A.C. (Note 33), and Pesquera Isla Blanca S.A. and its subsidiaries. The goodwill totaling US\$44,989,000 is provisionally determined based on management's assessment of the fair value of assets and liabilities acquired, certain of which are contingent in nature. The guarantee procured by the Group from one of the vendors of the acquired business covers only amounts of additional liabilities in excess of US\$2.5 million and capped at US\$3 million with progressive reduction of the guarantee by US\$1 million on November of each year from 2007 to 2009. Any subsequent reassessment of net assets or crystallisation of contingent liabilities can affect the carrying amount of goodwill. Information relating to management's assessment of goodwill is provided in Note 14.

Useful lives of property, plant and equipment

As described in Note 2, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the directors determined that the useful lives of property, plant and equipment are appropriate and no revision is required.

4 FINANCIAL RISKS AND MANAGEMENT

The Group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The Group does not enter into any financial derivative contracts.

Foreign exchange risk

The Group's entities transact largely in their functional currencies, which in most instances is the United States dollar. Foreign exchange risk arises largely from transactions denominated in currencies such as Peruvian Nuevos Soles, Chinese Renminbi, Hong Kong dollar and Euro.

Interest rate risk

The Group is exposed to the effect of changes in the London Interbank Offer Rate ("LIBOR") for borrowings denominated in United States dollars (Note 20) and to changes in short-term interest rates applicable to bank balances.

The Group mitigates its exposure to changes in interest rates by locking in fixed rate borrowings through the issue of senior notes (Note 21) and use of finance leases for which rates are fixed at inception of the finance leases (Note 19).

Credit risk

Sales of fish and other marine catches and fishmeals are made to companies which the Group assessed to be of good credit rating through their trading and payment history as well as such commercial information which the Group obtains from time to time. There is no concentration of credit risk except that 79% of the Group's receivables at the end of the financial year relate to 2 entities.

Cash balances are placed with reputable financial institutions.

The carrying amounts of financial assets in the balance sheet represent the Group's maximum exposure to credit risk.

Liquidity risk

The Group maintains sufficient cash and cash equivalents and obtains a mix of short-term and long-term external financing to fund its operations.

Other risk

The Group prepaid US\$56 million of charter hire fees for 7 vessels under the First VOA, the benefits of which are to be realised over 10 years from 2004 to 2013. The Group also prepaid US\$82 million of charter hire fees for another 7 vessels under the Second VOA, the benefits of which are to be realised over 10 years from 2006 to 2015. The Group mitigates risk relating to obligations of Perun and Alahir [Note 1(c)] in respect of the prepayment arrangement and the vessel operating agreements through the security documents described in Note 12.

Fair values of financial asset and financial liabilities

The carrying amounts of cash and bank balances, trade and other current receivables and payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to financial statements.

5 HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

- (a) The Company is a subsidiary of Super Investment Limited, a company incorporated in Cayman Islands. Its intermediate holding company is Pacific Andes (Holdings) Limited ("PAH"), a company incorporated in Bermuda with its shares listed on the Singapore Exchange Securities Trading Limited. Its penultimate holding company is Pacific Andes International Holdings Limited, a company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is N.S. Hong Investment (BVI) Limited, a company incorporated in the British Virgin Islands.

Information on the equity interest in shares of the Company:

	At December 31, 2006	At December 31, 2005
Super Investment Limited	84.3%	100.0%
Public	15.7%	–

Information on the equity interest in shares of Super Investment Limited:

	At December 31, 2006	At December 31, 2005
Zhonggang Fisheries Limited ⁽ⁱ⁾	49.9%	49.9%
Jade China Investments Limited ⁽ⁱⁱ⁾	48.1%	48.1%
Golden Target Pacific Limited ⁽ⁱⁱⁱ⁾	2%	2%

⁽ⁱ⁾ PAH and CIFHK [Note 1(d)] hold beneficial interest in 70% and 30% respectively of the equity in Zhonggang Fisheries Limited.

⁽ⁱⁱ⁾ Mr Sung Yu Ching, a director of the Company, holds beneficial interest in all the shares in Jade China Investments Limited.

⁽ⁱⁱⁱ⁾ PAH holds beneficial interest in all the shares in Golden Target Pacific Limited.

- (b) Restructuring exercise

Prior to a restructuring exercise, the previous holding company of the Group, CFIL, was jointly controlled by Zhonggang Fisheries Limited, Jade China Investments Limited and Golden Target Pacific Limited pursuant to a shareholders' agreement entered into by all three shareholders. Pursuant to a restructuring exercise, this shareholders' agreement was terminated on June 30, 2005. Consequently, PAH became the intermediate holding company of the restructured group with effect from June 30, 2005. Related companies refer to members of the ultimate holding company, N.S. Hong Investment (BVI) Limited [Note 5(a)].

- (c) The intercompany balances are unsecured, interest-free and repayable on demand unless otherwise stated.

5 HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS (continued)

- (d) Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of trading transactions entered between the Group and other related companies that are not members of the Group are disclosed below:

	Group	
	2006 US\$'000	2005 US\$'000
Subsidiaries of PAH:		
Revenue*		
Sale of fishes and other marine catches	–	12,816
Expenses*		
Purchase of bunker and other supplies	–	2,051
	<u>–</u>	<u>2,051</u>

- * These revenue and expenses represent transactions with fellow subsidiaries of PAH subsequent to the restructuring exercise on June 30, 2005 [Note 5(b)].

Sale of fishes and other marine catches to and purchase of bunker and other supplies from related companies were transacted at market prices.

- (e) At December 31, 2005, PAH and Mr Sung Yu Ching provided joint and several guarantees to a bank for a US\$40 million unsecured long term loan provided by the bank to a subsidiary [Note 20(a)]. During the financial year, the loan was refinanced and the Company became the guarantor in place of PAH and Mr Sung Yu Ching.

6 OTHER RELATED PARTY TRANSACTIONS

- (a) Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.
- (b) All members of N.S. Hong Investment (BVI) Limited (including Pacific Andes International Holdings Limited and PAH group of companies) and all entities related to CIFHK [Note 1(d)] are considered to be related parties of the Group with effect from July 12, 2004, the date on which Zhonggang Fisheries Limited [Note 5(a)(i)] acquired 49.9% equity interest in the Group.
- (c) Pursuant to the restructuring exercise described in Note 5(b), all members of N.S. Hong Investment (BVI) Limited became related companies of the Group effective from June 30, 2005.
- (d) Some of the Group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

6 OTHER RELATED PARTY TRANSACTIONS (continued)

- (e) During the year, Group entities entered into the following trading transactions with related parties:

	Group	
	2006 US\$'000	2005 US\$'000
Subsidiaries of PAH:		
<i>Revenue*</i>		
Sale of fishes and other marine catches	–	21,208
<i>Expenses*</i>		
Purchase of bunker and other supplies	–	918
	<u>–</u>	<u>918</u>
China International Fisheries Hong Kong Limited (“CIFHK”):		
<i>Revenue</i>		
Management fee	512	837
	<u>512</u>	<u>837</u>

* These revenue and expenses comprise transactions between the Group and PAH group between January 1, 2005 and June 29, 2005.

Sale of fishes and other marine catches and purchase of bunker and other supplies from subsidiaries of PAH were transacted at market prices.

Management fee income from CIFHK was determined in accordance with the terms of the vessel management agreement with CIFHK effective from January 1, 2005 [Note 1(d)].

- (f) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year comprise:

	Group	
	2006 US\$'000	2005 US\$'000
Short-term benefits	595	114
Post-employment benefits	16	–
	<u>611</u>	<u>114</u>

The remuneration of directors and key management is determined by the Remuneration Committee (2005 : board of directors) having regard to the performance of individuals and market trends.

7 CASH AND BANK BALANCES

	Group		Company	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Cash at bank	57,318	10,425	9,542	–
Cash on hand	350	1,404	–	–
Total	<u>57,668</u>	<u>11,829</u>	<u>9,542</u>	<u>–</u>

Cash at bank bears interest at rates ranging from 1.75% to 5.16% (2005 : 0.35% to 1.75%) per annum.

The Group and Company's cash and bank balances that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Hong Kong dollars	12	21	2	–
Chinese Renminbi	349	96	–	–
Euro	448	63	–	–
Peruvian Nuevos Soles	296	–	–	–
Singapore dollars	<u>5</u>	<u>–</u>	<u>5</u>	<u>–</u>

8 TRADE RECEIVABLES

	Group	
	2006 US\$'000	2005 US\$'000
Outside parties	7,717	1,620
CIFHK [Note 1(d)]	<u>511</u>	<u>523</u>
Total	<u>8,228</u>	<u>2,143</u>

An allowance for estimated irrecoverable amount from the sale of goods to third parties of US\$1,081,000 (2005: US\$Nil) acquired through the acquisition of subsidiaries has been determined by reference to management's estimation of irrecoverable amounts.

The credit period granted on sale of goods is up to 14 days (2005 : 14 days). No interest is charged on overdue balances.

The Group's trade receivables that are not denominated in the functional currencies of the respective entities are as follows:

	Group	
	2006 US\$'000	2005 US\$'000
Euro	49	–
Peruvian Nuevos Soles	<u>403</u>	<u>–</u>

9 OTHER RECEIVABLES, PREPAYMENTS AND DEPOSIT

	Group		Company	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Current assets				
Subsidiary (Note 16)	–	–	10,768	7,095
Arrangers [Note 1(c)]	54,542	14,440	–	–
Prepayments for fishmeal and operating expenses	7,709	6,065	–	–
Value added tax recoverable	3,480	–	–	–
Others	2,523	–	–	–
	<u>68,254</u>	<u>20,505</u>	<u>10,768</u>	<u>7,095</u>
Non-current assets				
Deposit for acquisition of a subsidiary [Note 36(e)]	<u>11,600</u>	<u>–</u>	<u>–</u>	<u>–</u>

The amount due from a subsidiary represented interest accrued on the principal amount due from the subsidiary in Note 16.

The balances with the Arrangers as of December 31, 2006 are unsecured, interest-free and represents advance to the Arrangers to pay for fishing tickets so as to be able to fish in the Russian economic waters and to secure new vessel operating agreements which were signed subsequent to the year end [Note 36(a) and (b)].

The balance with an Arranger as of December 31, 2005 was unsecured, interest-free and represented advance to an Arranger to secure the Second VOA [Note 1(c)].

The balances with the Arrangers are stated net of amounts payable to vessel owners in respect of payments made by the vessel owners on behalf of the Group. This offset has been effected on the basis of arrangements amongst members of the Group, the vessel owners and the Arrangers.

Included in "others" is an amount of US\$730,000 maintained in an escrow account held in the name of a subsidiary in connection with the acquisition of Pesquera Isla Blanca S.A. and its subsidiaries in December 2006. This amount can be applied against contingent costs arising from events occurring prior to or existing as at the date of acquisition and is claimable within a period of 12 months from the date of acquisition. The cost of acquisition includes this amount and a liability for this amount is included in other payables (Note 18).

The Group and Company's other receivables that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Chinese Renminbi	718	778	–	–
Euro	262	–	–	–
Hong Kong dollars	7	–	–	–
Peruvian Nuevos Soles	<u>5,601</u>	<u>–</u>	<u>–</u>	<u>–</u>

10 DEFERRED EXPENSES

	Group		Company	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Cost incurred in operating fishing vessels to be recovered through subsequent sales of fish and other marine products	6,928	1,685	–	–
Cost incurred in connection with preparation for the listing of the Group on the exchange of Singapore Exchange Securities Trading Limited ^{(a)(b)}	–	1,045	–	1,045
	<u>6,928</u>	<u>2,730</u>	<u>–</u>	<u>1,045</u>

(a) These included non-audit fees paid/payable to:

	Group	
	2006 US\$'000	2005 US\$'000
Auditors of the Company	–	101
Other auditors	–	5
	<u>–</u>	<u>106</u>

(b) In 2006, the cost of US\$1,045,000 accumulated at December 31, 2005, and subsequent additional cost of US\$1,838,000 were deducted against share premium arising from the issue of new ordinary shares [Note 24(b)].

11 INVENTORIES

	Group	
	2006 US\$'000	2005 US\$'000
Fishmeal	10,492	–
Frozen fish	14	–
Work-in-progress on fishmeal	135	–
Packing materials	135	–
Supplies	2,119	–
	<u>12,895</u>	<u>–</u>

Fishmeal with carrying amounts of US\$10,492,000 have been pledged as security for the Group's bank overdrafts and certain loans totalling US\$9,495,000 at December 31, 2006 (Note 20).

12 DEFERRED CHARTER HIRE

	Group	
	2006	2005
	US\$'000	US\$'000
Total deferred charter hire	138,000	56,000
Less accumulated amortisation	<u>(25,000)</u>	<u>(11,200)</u>
	113,000	44,800
Included as current asset	<u>(13,800)</u>	<u>(5,600)</u>
	99,200	39,200
	<u><u>99,200</u></u>	<u><u>39,200</u></u>
Accumulated amortisation:		
At beginning of year	11,200	5,600
Amortisation during the year charged as charter hire expenses	<u>13,800</u>	<u>5,600</u>
	25,000	11,200
	<u><u>25,000</u></u>	<u><u>11,200</u></u>

A subsidiary, China Fisheries International Limited ("CFIL"), entered into vessel operating agreements with Perun and Alatir to prepay fixed charter hire for 14 vessels for the 10 years as disclosed in Note 1(c). To secure the benefits from the prepayments and to ensure that the counterparties comply with their obligations under the vessel operating agreements, the counterparties executed the following documents in favour of CFIL:

- (i) charges of all the issued shares of Perun and Alatir (the "Charges");
- (ii) debentures over all the present and future assets of Perun and Alatir (the "Debentures"); and
- (iii) entrusted management agreements to vest upon the nominee of CFIL, the management and control of Perun and Alatir in respect of and limited to the performance and obligations of the vessel operating agreements.

If an event of default occurs, CFIL shall, pursuant to the terms of the Charges and Debentures, 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 on its part to be performed and observed in the vessel operating agreements, the Charges, the Debentures or any other instruments or agreements entered into 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 vessel operating agreements, the Charges, the Debentures or any other security granted in favour of CFIL by each of Perun and Alatir.

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land US\$'000	Freehold buildings US\$'000	Leasehold buildings US\$'000	Fishing vessels US\$'000	Fishing nets US\$'000	Plant and machinery US\$'000	Vehicles US\$'000	Furniture, fittings and office equipment US\$'000	Total US\$'000
Group									
Cost or valuation:									
At January 1, 2005	-	-	-	-	-	-	-	24	24
Additions	-	-	-	-	-	-	132	424	556
At December 31, 2005	-	-	-	-	-	-	132	448	580
Comprising:									
At cost	-	-	-	-	-	-	132	448	580
At valuation	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	132	448	580
At January 1, 2006	-	-	-	-	-	-	132	448	580
Additions	-	1,922	1,305	4,425	323	131	93	885	9,084
Acquired on acquisition of subsidiaries	2,422	9,319	-	22,843	2,789	45,117	235	625	83,350
Revaluation increase	-	-	54	-	-	-	-	-	54
At December 31, 2006	2,422	11,241	1,359	27,268	3,112	45,248	460	1,958	93,068
Comprising:									
At cost	2,422	11,241	-	27,268	3,112	45,248	460	1,958	91,709
At valuation	-	-	1,359	-	-	-	-	-	1,359
	2,422	11,241	1,359	27,268	3,112	45,248	460	1,958	93,068
Accumulated depreciation:									
At January 1, 2005	-	-	-	-	-	-	-	2	2
Depreciation	-	-	-	-	-	-	15	39	54
At January 1, 2006	-	-	-	-	-	-	15	41	56
Acquired on acquisition of subsidiaries	-	10	-	-	539	412	49	256	1,266
Depreciation	-	80	45	885	177	748	41	124	2,100
Eliminated on revaluation	-	-	(4)	-	-	-	-	-	(4)
At December 31, 2006	-	90	41	885	716	1,160	105	421	3,418
Carrying amount:									
At December 31, 2005	-	-	-	-	-	-	117	407	524
At December 31, 2006	2,422	11,151	1,318	26,383	2,396	44,088	355	1,537	89,650

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The carrying amount of the Group's property, plant and equipment includes an amount of US\$32,125,000 (2005 : US\$Nil) in respect of assets held under finance leases (Note 19).

The leasehold buildings situated in Hong Kong were revalued by BMI Appraisals Limited, independent valuers not connected with the Group, on an open market value basis as at March 31, 2006.

At December 31, 2006, had the leasehold buildings situated in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately US\$1,266,000 million.

The carrying amounts of freehold land and buildings situated in Peru were based on their fair values at the dates of their acquisitions during the financial year which are deemed to be cost at the dates of their acquisitions.

The directors are of the opinion that the carrying amount of these freehold land and buildings in Peru approximate their market values as at December 31, 2006.

14 GOODWILL

	Group US\$'000
Cost:	
Arising on acquisition of subsidiaries during the year and balance at end of year	<u>44,989</u>

Goodwill acquired in a business combination is allocated, at acquisition to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated to the Peruvian operations.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group has engaged an independent financial advisor located in Peru, Equitas Partners S.A.C., to determine the value of the businesses acquired in Peru. Based on the report of the valuer dated 18 December, 2006 and management's assessment of business prospects, management expects the carrying amount of goodwill to be recoverable and there is no impairment in value of the goodwill.

The assessment of recoverability of the carrying amount of goodwill includes:

- (i) forecasted projected cash flows up to 2011 and projection of terminal value using the perpetuity method;
- (ii) growth rate of 2%; and
- (iii) use of 19.2% to discount the projected cash flows to net present values.

15 OTHER INTANGIBLE ASSETS

	Fishing permits US\$'000
Cost:	
From acquisition of subsidiaries (Note 33)	22,453
From acquisition of a fishing vessel	2,122
	<hr/>
Balance at end of year	<u>24,575</u>

Fishing permits are granted by the authority in Peru. The fishing permits are attached to fishing vessels and are transferable to other vessels of no bigger capacity should the original vessels become obsolete or sinks. The cost of purchase of a fishing vessel with the attached fishing permit and the cost of acquiring the subsidiary which owns the fishing vessels and attached fishing permits (Note 33) are allocated to the respective component of assets acquired on the basis of valuation reports dated 2 November and 10 November, 2006 prepared by an independent third party valuer in Peru, Invalsa Ingeniería y Valuaciones S.A.

Management has obtained legal advice that the 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. Accordingly, the cost of fishing permits are not amortised.

As stated in Note 14, the Group has engaged an independent valuer located in Peru to determine the value of the businesses acquired in Peru. Based on that report, and management's assessment of business prospects, management expects the carrying amount of fishing permits to be recoverable and there is no impairment in value of the fishing permits.

16 SUBSIDIARIES

	Company	
	2006 US\$'000	2005 US\$'000
Unquoted equity shares, at cost	*	*
Amount due from a subsidiary	58,668	30,504
Fair value of a financial guarantee contract	3,675	–
	<hr/>	<hr/>
	<u>62,343</u>	<u>30,504</u>

* Amount less than US\$1,000.

The amount due from a subsidiary is unsecured and earns interest at 3% above the 3-months London Interbank Offer Rate. The interest earned ranged from 7.23% to 8.50% (2005 : 6.19% to 7.23%) per annum. The Company expects to capitalise an amount of US\$5,000,000 as additional investment in the share capital of Smart Group Limited in 2007.

Management considers the amount due from the subsidiary to approximate fair value as the interest charged is determined with reference to market rate.

16 SUBSIDIARIES (continued)

Details of the Company's subsidiaries are as follows:

Name of subsidiary	Country of incorporation and operation	Principal activities	Effective proportion of ownership interest and voting power held	
			2006 %	2005 %
Smart Group Limited ⁽¹⁾	Cayman Islands	Investment holding	100	100
Subsidiaries of Smart Group Limited				
China Fisheries International Limited ⁽¹⁾	Samoa/Worldwide	Management and operation of fishing vessels and sale of fish and other marine catches	100	100
CFG Peru Investments Pte Limited ⁽²⁾⁽⁵⁾	Singapore	Investment holding	100	–
Subsidiaries of China Fisheries International Limited				
Admired Agents Limited ⁽¹⁾	British Virgin Islands/ Worldwide	Agent for procurement of provisions and supplies for the Group	80	80
Champion Maritime Limited ⁽¹⁾⁽⁴⁾	British Virgin Islands/ Worldwide	Agent for sales of fish and other marine catches of the Group and procurement of provisions and supplies for the Group	100	–
Chanery Investment Inc. ⁽¹⁾	British Virgin Islands/ Worldwide	Agent for procurement of provisions and supplies for the Group	100	100
Excel Concept Limited ⁽¹⁾	British Virgin Islands/ Worldwide	Agent for sales of fish and other marine catches of the Group	80	80
Fortress Agents Limited ⁽¹⁾⁽⁴⁾	British Virgin Islands/ Worldwide	Agents for sales of fish and other marine catches of the Group and procurement of provisions and supplies for the Group	100	–
Metro Island International Limited ⁽¹⁾	British Virgin Islands/ Worldwide	Agent for sales of fish and other marine catches of the Group and procurement of provisions and supplies for the Group	80	80
Pioneer Logistics Limited ⁽¹⁾⁽⁴⁾	British Virgin Islands/ Worldwide	Agent for sales of fish and other marine catches of the Group and procurement of provisions and supplies for the Group	100	–
Superb Choice International Limited ⁽¹⁾	British Virgin Islands/ Worldwide	Agent for sales of fish and other marine catches of the Group	100	100

16 SUBSIDIARIES (continued)

Name of subsidiary	Country of incorporation and operation	Principal activities	Effective proportion of ownership interest and voting power held	
			2006 %	2005 %
Subsidiaries of CFG Peru Investments Pte Limited				
CFG Investment S.A.C. ⁽³⁾⁽⁵⁾ [Note 33(b)]	Peru	Investment holding, operation of fishing vessel and sale of fish and marine catches	100	–
Pesquera Isla Blanca S.A. ⁽³⁾⁽⁴⁾	Peru	Investment holding, operation of fishing vessels and sale of anchovy	100	–
Protein Trading Limited ⁽⁵⁾	Samoa	Procurement and marketing agent of fishmeal	100	–
Skatfeld Overseas Inc. ⁽³⁾⁽⁴⁾	Panama	Investment holding	100	–
Negociacion Pesquera Continental S.A. ⁽³⁾⁽⁴⁾	Peru	Operation of fishing vessel and sale of anchovy	100	–

⁽¹⁾ Audited by Deloitte & Touche, Singapore for sole purpose of inclusion of their financial position and operating results in the consolidated financial statements of the Group.

⁽²⁾ Audited by Deloitte & Touche, Singapore.

⁽³⁾ Audited by Gris, Hernández y Asociados S.C., a member firm of Deloitte Touche Tohmatsu.

⁽⁴⁾ Acquired during the financial year

⁽⁵⁾ Incorporated during the financial year

The subsidiaries have representatives in Hong Kong, People's Republic of China, Taiwan, Russia and Peru to perform various aspects of their activities.

The acquisition of the subsidiaries of CFG Peru Investments Pte Limited resulted in inclusion of post-acquisition revenue of US\$6,379,000 and losses of US\$2,423,000 in the Group's financial statements.

It is not practicable to estimate the change in revenue and operating results for the Group had the above acquisitions being effected at the beginning of the financial year as financial statements prior to the acquisitions have not been prepared based on International Financial Reporting Standards or Singapore Financial Reporting Standards.

Each of the newly acquired subsidiaries of China Fisheries International Limited were acquired to act as procurement agents for fishing vessel bunkers and other supplies as well as sales agents for frozen fish. No disclosure is made of the contribution to the Group's revenue and profit had these subsidiaries been acquired at the beginning of the financial year as these numbers pertained to operations which ceased upon their acquisition by the Group. Upon their acquisition by the Group, the activities of these subsidiaries were restricted to acting as procurement and sales agents for China Fisheries International Limited.

17 TRADE PAYABLES

	Group	
	2006 US\$'000	2005 US\$'000
Outside parties	<u>11,013</u>	<u>1,448</u>

The average credit period on purchase of goods is 30 days (2005 : 30 days). No interest is charged on overdue balances.

Trade payables principally comprise amounts outstanding for vessel operating costs and trade purchases.

The Group's trade payables that are not denominated in the functional currencies of the respective entities are as follows:

	Group	
	2006 US\$'000	2005 US\$'000
Hong Kong dollars	11	5
Chinese Renminbi	40	235
Euro	779	–
Peruvian Nuevos Soles	<u>546</u>	<u>–</u>

18 OTHER PAYABLES AND ACCRUED EXPENSES

	Group		Company	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Related company (Note 5)	–	61	–	–
Accrued expenses	11,891	784	82	35
Interest payable	945	–	–	–
Provision for claims (Note 35)	1,348	–	–	–
Statutory employees' profit share (Note 22)	1,549	–	–	–
Others	<u>5,702</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u>21,435</u>	<u>845</u>	<u>82</u>	<u>35</u>

18 OTHER PAYABLES AND ACCRUED EXPENSES (continued)

The Group and Company's other payables that are not denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Hong Kong dollars	187	61	–	–
Singapore dollars	14	94	14	35
Chinese Renminbi	23	–	–	–
Peruvian Nuevos Soles	5,592	–	–	–
	<u>5,816</u>	<u>155</u>	<u>14</u>	<u>35</u>

19 FINANCE LEASES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Amounts payable under finance leases:				
Within one year	3,132	–	2,719	–
In the second to fifth year inclusive	4,220	–	3,744	–
Less: Future finance charges	(889)	–	NA	–
	<u>6,463</u>	<u>–</u>	<u>6,463</u>	<u>–</u>
Present value of lease obligations	6,463	–	6,463	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(2,719)	–
			<u>3,744</u>	<u>–</u>
Amount due for settlement after 12 months				–

For the year ended December 31, 2006, the effective borrowing rate ranged from 7.75% to 11.50% per annum. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in United States dollars.

The carrying amounts of the Group's lease obligations approximate their fair value.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets (Note 13).

20 BANK OVERDRAFTS AND LOANS

	Group	
	2006 US\$'000	2005 US\$'000
Bank overdrafts	430	–
Bank loans	41,856	–
	<u>42,286</u>	<u>–</u>

The bank loans are repayable as follows:

	Group	
	2006 US\$'000	2005 US\$'000
On demand or within one year	10,354	17,142
In the second year	9,432	22,858
In the third year	7,500	–
In the fourth year	7,500	–
In the fifth year	7,500	–
	<u>42,286</u>	<u>40,000</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	(10,354)	(17,142)
Amount due for settlement after 12 months	<u>31,932</u>	<u>22,858</u>

The bank overdrafts have current maturities, bear interest at 6-months London Interbank Offer Rate plus 1.52% and are secured over the Group's fishmeal (Note 11).

The bank loans comprise the following:

- (a) The loan of US\$40,000,000 as at December 31, 2005 was unsecured and repayable in 7 equal quarterly instalments with first instalment due in April 2006. Interest was charged at 3% above the 3-months London Interbank Offer Rate. Interest charged ranged from 7.23% to 8.50% (2005 : 6.19% to 7.23%) per annum. The loan was jointly and severally guaranteed by PAH and Mr Sung Yu Ching.

During the financial year, an outstanding balance together with accrued interest totaling US\$28,600,000 was refinanced and an additional amount of US\$1,400,000 was drawdown. The total loan of US\$30,000,000 is unsecured and repayable in 16 equal quarterly instalments with the first instalment due in March 2008. Interest is charged on US\$1,400,000 at 2.5% above the 3-months London Interbank Offer Rate and at 3% above the 3-months London Interbank Offer Rate for US\$28,600,000. Interest charged ranged from 7.37% to 8.50% per annum. The loan is guaranteed by the Company and the guarantees previously provided by PAH and Mr Sung Yu Ching have been cancelled.

- (b) Bank loans of US\$9,065,000 (2005 : US\$Nil) have current maturities, bear interest at 6-months London Interbank Offer Rate plus 1.52% and are secured over the Group's fishmeal (Note 11).
- (c) Promissory notes of US\$2,426,000 (2005 : US\$Nil) are unsecured and repayable from March 2007 through to December 2008 and bear fixed interest rates ranging from 9% to 14% per annum.
- (d) Bank loans of US\$365,000 are unsecured, bear fixed interest rates ranging from 10% to 12.5% per annum, are repayable on monthly instalment basis and will be fully repaid within 2008.

21 SENIOR NOTES

On December 19, 2006, the Group, through its subsidiary, CFG Investment S.A.C., issued guaranteed senior fixed rate notes with aggregate nominal value of US\$225,000,000 (the "Notes") which carry fixed interest of 9.25% per annum and will be fully repayable by December 19, 2013.

The Notes are listed on the Singapore Exchange Securities Trading Limited. They are unsecured and guaranteed by the Company and certain subsidiaries of the Group. The guarantees are effectively subordinated to secured obligations of each guarantor, to the extent of the value of assets serving as security.

At any time prior to December 19, 2010, the Group may redeem the Notes in whole or in part at the principal amount of the Notes plus an applicable premium and accrued interest provided that any partial redemption shall not result in less than US\$100 million of outstanding Notes. At any time prior to and up to December 19, 2009, the Group may redeem up to 35% of the Notes with net cash proceeds from issue of ordinary shares of China Fishery Group Limited or sale of ordinary shares of CFG Investment S.A.C. at the redemption price equal to 109.25% of the principal amount of the Notes plus accrued and unpaid interests, if any, as of the redemption date.

The Notes contain certain covenants that limit the Company's ability and the ability of certain subsidiaries to, among other things:

- incur or guarantee additional indebtedness and issue disqualified or preferred shares;
- declare dividends or purchase or redeem shares;
- make investments or other specified restricted payments;
- issue or sell shares of certain subsidiaries;
- sell assets or create any lien; and
- enter into sale and leaseback transactions.

The net carrying amount of the Notes is stated net of issue expenses totalling US\$8,957,000. Such expenses are amortised over the life of the Notes by charging the expenses to the income statement and increasing the net carrying amount of the Notes with the corresponding amount.

Management considers that the carrying amount of the Notes approximates their fair value at the end of the financial year as the interest charged approximates the market rate at the end of the financial year.

22 STATUTORY EMPLOYEES' PROFIT SHARE

In accordance with Peruvian labour laws, employees of the Group's Peruvian subsidiaries are entitled to 10% share of the taxable profit of the Peruvian subsidiaries. The movements of the balance during the financial year are as follows:

	Group	
	2006 US\$'000	2005 US\$'000
Arising on acquisition of subsidiaries	8,062	–
Charged to profit and loss	165	–
	<hr/>	<hr/>
Balance at end of year	8,227	–
Less: Current portion (Note 18)	(1,549)	–
	<hr/>	<hr/>
Non-current portion	<u>6,678</u>	<u>–</u>

23 DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities and assets recognised by the Group and the movements thereon during the current financial year:

	Accelerated tax depreciation US\$'000	Fair value adjustments US\$'000	Provisions US\$'000	Total US\$'000
Arising on acquisition of subsidiaries (Note 33)	2,355	15,705	(184)	17,876
Charged to profit and loss (Note 30)	692	–	(540)	152
	<u>3,047</u>	<u>15,705</u>	<u>(724)</u>	<u>18,028</u>
As at December 31, 2006	<u>3,047</u>	<u>15,705</u>	<u>(724)</u>	<u>18,028</u>

24 SHARE CAPITAL

	Group and Company		Amounts US\$'000
	Number of ordinary shares at US\$1.00 per share	at US\$0.10 per share	
Authorised:			
Balance at January 1, 2005	50,000	–	50
Increase in authorised share capital	79,950,000	–	79,950
Effect of sub-division of shares (a)	(80,000,000)	80,000,000	–
Increase in authorised share capital pursuant to the sub-division (a)	–	720,000,000	–
	<u>–</u>	<u>720,000,000</u>	<u>–</u>
Balance at December 31, 2005 and 2006	<u>–</u>	<u>800,000,000</u>	<u>80,000</u>

	Group and Company		Amounts US\$'000
	Number of ordinary shares at US\$1.00 per share	at US\$0.10 per share	
Issued and paid up:			
Balance at January 1, 2005	1	–	*
Issue of shares pursuant to Restructuring exercise (Note 5)	30,503,999	–	30,504
Effect of sub-division of shares (a)	(30,504,000)	305,040,000	–
	<u>–</u>	<u>305,040,000</u>	<u>30,504</u>
Balance at December 31, 2005	–	305,040,000	30,504
Issue of shares (b)	–	57,000,000	5,700
	<u>–</u>	<u>362,040,000</u>	<u>36,204</u>
Balance at December 31, 2006	<u>–</u>	<u>362,040,000</u>	<u>36,204</u>

The Company has one class of ordinary shares which carry no right to fixed income.

24 SHARE CAPITAL (continued)

- * Issued capital = US\$1.00
- (a) On July 6, 2005, the ordinary shares of US\$1.00 each were sub-divided from US\$1.00 each into 10 ordinary shares of US\$0.10 each.
- (b) On January 24, 2006, the Company issued 57,000,000 ordinary shares of US\$0.10 each at S\$1.25 (US\$0.7687) per ordinary share for cash as part of its initial public offering. Premium of US\$38,116,000 representing the excess of issue price over the par value of the new shares was recorded. Net of issue expenses of US\$2,883,000, the resulting share premium was US\$35,233,000.
- (c) On January 25, 2006, the Company's shares were listed on the Singapore Exchange Securities Trading Limited.

25 MERGER RESERVE

Merger reserve represents the difference between the aggregate nominal amount of the share capital of the combining entities and the nominal amount of share capital issued by the Company during the restructuring exercise undertaken in 2005 [Note 5(b)].

26 REVENUE

	Group	
	2006	2005
	US\$'000	US\$'000
Sale of fish and marine catches	150,110	89,748
Sale of fishmeal and fish oil	5,419	–
Management fee	512	837
	156,041	90,585
	156,041	90,585

27 BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is organised on a world-wide basis into four major fishing and production locations – the Pacific Ocean (excluding Peruvian Waters), Peruvian Waters, Atlantic Ocean and Indian Ocean. The geographical locations are the basis on which the Group reports its primary segment information.

The primary segment information is based on fishing and production locations as well as assets employed to generate these revenue. Additional segment information on revenue is based on the location of customers.

Segment revenue and expenses: Segment revenue and expenses are the operating revenue and expenses reported in the Group's profit and loss statement that are directly attributable to a segment and the relevant portion of such revenue and expenses that can be allocated on a reasonable basis to a segment.

Segment assets and liabilities: Segment assets include all operating assets used by a segment and consist principally of cash and bank balances, receivables, prepayments, deposits, deferred expenses, deferred chartered hire, property, plant and equipment and intangible assets. Capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year and comprises property, plant and equipment, intangible assets purchased and prepayment of deferred charter hire. Segment liabilities consist principally of payables and accrued expenses. They exclude income tax, bank loans and finance leases.

27 BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

	Pacific Ocean ⁽¹⁾		Peruvian Waters		Atlantic Ocean		Indian Ocean		Total	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Revenue	<u>149,151</u>	<u>89,748</u>	<u>6,378</u>	<u>-</u>	<u>413</u>	<u>598</u>	<u>99</u>	<u>239</u>	<u>156,041</u>	<u>90,585</u>
Segment results	56,002	32,258	320	-	413	598	99	239	56,834	33,095
Finance costs									(5,423)	(1,821)
Unallocated corporate expenses									(2,995)	(616)
Profit before income tax									48,416	30,658
Income tax expense									(448)	-
Net profit for the year									<u>47,968</u>	<u>30,658</u>
Other information										
Segment assets	150,585	80,963	286,691	-	511	523	-	-	437,787	81,486
Unallocated corporate assets									-	1,045
Total assets									<u>437,787</u>	<u>82,531</u>
Segment liabilities	8,186	1,720	29,995	-	-	-	-	-	38,181	1,720
Unallocated corporate liabilities									286,688	40,573
Total liabilities									<u>324,869</u>	<u>42,293</u>
Capital expenditure	83,567	26,556	159,165	-	-	-	-	-	<u>242,732</u>	<u>26,556</u>
Depreciation and amortisation	13,985	5,654	1,915	-	-	-	-	-	<u>15,900</u>	<u>5,654</u>

⁽¹⁾ Excludes Peruvian Waters

27 BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Revenue based on locations of the customers (which are different from the fishing and production locations) are as follows:

Revenue

	Pacific Ocean ⁽¹⁾		Peruvian Waters		Atlantic Ocean		Indian Ocean		Total	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
People's Republic of China	74,484	37,677	2,949	–	413	598	99	239	77,945	38,514
Japan	13,719	12,389	–	–	–	–	–	–	13,719	12,389
Korea	40,748	17,460	–	–	–	–	–	–	40,748	17,460
South America	–	–	1,605	–	–	–	–	–	1,605	–
Europe	19,521	16,763	216	–	–	–	–	–	19,737	16,763
Others*	679	5,459	1,608	–	–	–	–	–	2,287	5,459
	<u>149,151</u>	<u>89,748</u>	<u>6,378</u>	<u>–</u>	<u>413</u>	<u>598</u>	<u>99</u>	<u>239</u>	<u>156,041</u>	<u>90,585</u>

* Others include Africa and North America

Business segments

The Group's principal activities comprise:

Fishing operation– Fishing and sale of fish and marine catches.

Fishmeal and fish oil production – Production and sale of fishmeal and fish oil.

	Revenue		Carrying amounts of segment assets		Additions to property, plant and equipment, deferred charter hire and intangible assets	
	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000	2006 US\$'000	2005 US\$'000
Fishing operation	150,110	89,748	150,585	80,963	83,567	26,556
Fishmeal and fish oil production	5,419	–	286,691	–	159,165	–
Others	512	837	511	1,568	–	–
	<u>156,041</u>	<u>90,585</u>	<u>437,787</u>	<u>82,531</u>	<u>242,732</u>	<u>26,556</u>

28 OTHER OPERATING INCOME

	Group	
	2006 US\$'000	2005 US\$'000
Interest income	207	67
Net foreign exchange gains	1,379	3
Excess of fair value of net assets over cost of business combination (Note 33)	828	–
Rental income	42	–
Others	130	47
	<u>2,586</u>	<u>117</u>

29 FINANCE COSTS

	Group	
	2006 US\$'000	2005 US\$'000
Interest on bank overdrafts and loans	4,651	1,821
Interest on finance leases	83	–
Interest on senior notes	689	–
	<u>5,423</u>	<u>1,821</u>

30 INCOME TAX EXPENSE

(a) Operations excluding Hong Kong and Peruvian operations

The Group has no income tax liability from operations outside of Hong Kong and Peru as it fishes in international waters. Additionally, under the terms of the vessel operating agreements and vessel management agreement executed by the Group with the Arrangers [Note 1(c)] and CIFHK [Note 1(d)], the Arrangers and CIFHK bear all tax consequences, if any, relating to the agreements.

(b) Hong Kong

Certain subsidiaries act as procurement and marketing agents for the Group and some administrative personnel are located in Hong Kong. Tax on agency income is considered immaterial and has not been provided for.

(c) Peruvian operation

	Group	
	2006 US\$'000	2005 US\$'000
Current tax	296	–
Deferred tax (Note 23)	152	–
	<u>448</u>	<u>–</u>

30 INCOME TAX EXPENSE (continued)

(c) Peruvian operation (continued)

Income tax is calculated at the Peruvian tax rate of 30% applied to the estimated assessable profit for the year after deduction of statutory employees' profit share of 10% from the estimated assessable profit.

The total charge for the year can be reconciled to the accounting profit as follows:

	Group	
	2006 US\$'000	2005 US\$'000
Loss before tax of Peruvian operations	(1,732)	–
Tax benefit at Peruvian tax rate of 30% (2005 : 30%)	(520)	–
Tax effect of expenses that are not deductible in determining taxable profit	1,018	–
Effect of employees' profit share	(50)	–
	<u>448</u>	<u>–</u>

31 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	Group	
	2006 US\$'000	2005 US\$'000
Depreciation and amortisation:		
Amortisation of deferred charter hire (Note 12)	13,800	5,600
Depreciation of property, plant and equipment (Note 13)	2,100	54
Total depreciation and amortisation	<u>15,900</u>	<u>5,654</u>
Directors' remuneration:		
of the Company	449	4
of the subsidiaries	–	22
Total directors' remuneration	<u>449</u>	<u>26</u>
Crew wages and employee benefits expense (including directors' remuneration)	23,271	11,218
Defined contribution plan expense	30	–
Cost of inventories recognised as expense*	3,928	–
Net foreign exchange gains	<u>(1,780)</u>	<u>(3)</u>

* This comprises cost of inventories relating to the operations in Peru, the nature of which is stated in Note 11. It excludes cost incurred in fishing in the Pacific Ocean which are recorded as deferred expenses in Note 10.

No non-audit fee was paid to the auditors for the financial year.

32 EARNINGS PER SHARE

The basic earnings per ordinary share for the year ended December 31, 2006 is calculated based on the Group's profit attributable to shareholders of US\$47,968,000 for the year ended December 31, 2006 divided by the weighted average number of 358,292,055 ordinary shares in issue for the year.

The basic earnings per ordinary share for the year ended December 31, 2005 is calculated based on the Group's profit attributable to shareholders of US\$30,658,000 for the year ended December 31, 2005 divided by the post-restructuring 305,040,000 ordinary shares deemed to be in issue as if the combined Group had been in existence since January 1, 2004.

There is no difference between the basic and diluted earnings per share as the Company has no potential dilutive ordinary shares.

33 ACQUISITION OF SUBSIDIARIES

During the financial year, the Group acquired the following subsidiaries and accounted for these acquisitions using the purchase method of accounting.

Subsidiaries incorporated in Peru	Date of acquisition
Procesadora del Carmen S.A. ^(b)	May 4, 2006
Alexandra S.A.C. ^(b)	October 26, 2006
Pesquera Victor S.A.C. ^(b)	October 26, 2006
Empresa Pesquera Flor Ilo S.R.L. ^(b)	October 26, 2006
Pesquera Isla Blanca S.A.	December 22, 2006
Negociacion Pesquera Continental S.A.C.	December 22, 2006
Subsidiaries incorporated in Panama	Date of acquisition
Skatfeld Overseas Inc.	December 22, 2006
Subsidiaries incorporated in British Virgin Islands	Date of acquisition
Champion Maritime Limited	February 20, 2006
Fortress Agents Limited	February 20, 2006
Pioneer Logistics Limited	February 20, 2006

33 ACQUISITION OF SUBSIDIARIES (continued)

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

	Acquirees' carrying amount before combination US\$'000	Fair value adjustments US\$'000	Fair value ^(c) US\$'000
Cash and bank balances	4,008	–	4,008
Trade receivables	6,018	–	6,018
Other receivables and prepayments	9,703	–	9,703
Deferred expenses	214	–	214
Inventories	2,198	–	2,198
Property, plant and equipment	42,404	39,680	82,084
Fishing permits (Note 15)	–	22,453	22,453
Trade payables	(8,870)	–	(8,870)
Other payables and accrued expenses*	(17,687)	–	(17,687)
Income tax payable	(4,222)	–	(4,222)
Finance leases	(6,546)	–	(6,546)
Statutory employees' profit share – non-current	(704)	(5,809)	(6,513)
Deferred tax liabilities (Note 23)	(2,171)	(15,705)	(17,876)
	<u>24,345</u>	<u>40,619</u>	64,964
Goodwill arising on acquisitions			44,989
Excess of fair value of net assets over cost of acquisition ^(a)			<u>(828)</u>
Total consideration, satisfied by cash			<u>109,125</u>
Net cash outflow arising on acquisitions:			
Cash consideration			109,125
Cash and cash equivalents acquired			<u>(4,008)</u>
			<u>105,117</u>

* Inclusive of current portion of statutory employees' profit share.

(a) Goodwill of US\$44,989,000 arise from acquisition of the Peruvian subsidiaries, other than Procesadora del Carmen S.A. for an aggregate consideration of US\$105,807,000. The excess of fair value of net assets over cost of acquisition of US\$828,000 relate to the acquisition of Procesadora del Carmen S.A., for a consideration of US\$4,632,000.

The purchase consideration of all other subsidiaries are less than US\$1,000 in aggregate. The assets and liabilities of these other subsidiaries acquired during the financial year are insignificant and are included in the aggregate numbers presented above.

(b) Subsequent to their acquisitions, by CFG Investment S.A.C., the entities incorporated in Peru, namely Procesadora del Carmen S.A., Alexandra S.A.C., Pesquera Víctor S.A.C. and Empresa Pesquera Flor Ilo S.R.L. were merged into CFG Investment S.A.C., a company incorporated during the financial year.

(c) As at the end of the financial year, the Group recognised provisional fair values of net assets acquired. The provisional fair values may be adjusted upon subsequent determination of contingent liabilities.

34 OPERATING LEASE ARRANGEMENTS

The Group as lessee

		Group	
		2006	2005
		US\$'000	US\$'000
(a)	Minimum lease expenditure under operating leases recognised as an expense in the year	32,628	15,189
	Comprising:		
	Amortisation of deferred charter hire (Note 12)	13,800	5,600
	Variable charter hire	17,528	9,493
	Rental of fishing vessels and fishmeal processing plants	1,300	–
	Rental of premises	–	96
		<u> </u>	<u> </u>
(b)	At December 31, 2006, the Group has ongoing commitments to pay variable charter for 7 fishing vessels under the Perun VOA up to December 31, 2013 and for another 7 fishing vessels under the Alatir VOA up to December 31, 2015 (2005 : 7 fishing vessels under the Perun VOA up to December 2013). Variable charter hire is calculated at 20% of the net profit derived from operating the fishing vessels before deduction of amortisation of fixed deferred charter hire which has been prepaid.		
(c)	The Group also entered into two agreements to lease three fishing vessels and two fishmeal processing plants for six months from October 2006. These agreements are automatically renewable for an additional six months unless prior notice of termination is served by any of the two parties to the agreements. Rental payable is based on an agreed formula relating to operating profit generated from operating the three fishing vessels and two fishmeal processing plants.		

The Group as lessor

The Group rents out a portion of its freehold buildings in Peru under operating leases. Property rental income earned during the year was US\$42,000 (2005 : US\$Nil). At the balance sheet date, the Group has contracted with tenants for the following future minimum lease payments:

		Group	
		2006	2005
		US\$'000	US\$'000
	Within one year	100	–
	In the second to fifth year inclusive	58	–
	After five years	–	–
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>
		158	–

35 CONTINGENT LIABILITIES

Certain members of the Group are parties to legal processes in Peru amounting to US\$2,287,000. These relate to environmental matters, former employees and miscellaneous claims. The Group's legal advisor has advised the Group that US\$1,348,000 of these claims is likely to have unfavourable outcome for the Group and the outcome for claims of US\$939,000 cannot be reasonably ascertained. Additionally, there are claims which the legal advisor has opined to have remote chances of resulting in unfavourable outcomes for the Group.

The Group made a provision of US\$1,348,000 (Note 18) for those claims where the outcome is likely to be unfavourable to the Group.

36 EVENTS AFTER THE BALANCE SHEET DATE

- (a) On January 4, 2007, China Fisheries International Limited ("CFIL") entered into a third vessel operating agreement jointly with Alatir Limited and Perun Limited ("Third VOA").

Both Alatir Limited and Perun Limited are incorporated in the British Virgin Islands and have been mandated by companies owning 3 supertrawlers ("Vessels") to arrange for the management and operation of the Vessels. The companies which own the Vessels possess the necessary fishing quotas and licences that allow the Vessels to operate in the Russian economic waters in the Pacific Ocean.

Both Alatir Limited and Perun Limited engaged CFIL to manage and operate the Vessels on and subject to the terms of the Third VOA for a period of 18 years. If any of the Vessels had commenced a voyage at the date of the Third VOA, the employment period of that Vessel will be deemed to have commenced since the commencement of the voyage. Pursuant to the terms of the Third VOA, CFIL is entitled to the proceeds of the sales of all the fish and marine catches caught by crew on the Vessels and shall be responsible for all operating expenses. In return, both Alatir Limited and Perun Limited receive an aggregate fixed fee of US\$150 million (the "Fixed Fee") and an aggregate annual 20 percent share of the operating profit (after deduction of fixed charter hire) to be derived by CFIL from the operation of the Vessels.

CFIL has paid to Alatir Limited and Perun Limited US\$30 million as part payment of the Fixed Fee after signing the Third VOA. The balance of the Fixed Fee shall be paid within six months from the date of the Third VOA.

- (b) On January 24, 2007, CFIL entered into a fourth vessel operating agreement with Perun Limited ("Fourth VOA").

Perun Limited has been mandated by companies owning vessels to arrange for the management and operation of 6 supertrawlers ("Vessels"). The companies which own the Vessels possess the necessary fishing quotas and licences that allow the Vessels to operate in the Russian economic waters in the Pacific Ocean.

Perun Limited engaged CFIL to manage and operate the Vessels on and subject to the terms of the Fourth VOA for a period of 5 years. If any of the Vessels had commenced a voyage at the date of the Fourth VOA, the employment period of that Vessel will be deemed to have commenced since the commencement of the voyage. Pursuant to the terms of the Fourth VOA, CFIL is entitled to the proceeds of the sales of all the fish and marine catches caught by crew on the Vessels and shall be responsible for all operating expenses. In return, Perun Limited receives fixed charter hire of US\$12,000 per vessel per day and an annual 20 percent share of the operating profit (after deduction of fixed charter hire) to be derived by CFIL from the operation of the Vessels.

- (c) On January 24, 2007, the Company issued 29 million new placement shares of par value of US\$0.10 each at S\$3.98 (US\$2.58) per share. These shares represent 7.4% of the Company's enlarged share capital of 391,040,000 shares. The net proceeds of the issue have been used to pay part of the Fixed Fee under the Third VOA [Note 36(a)] and for working capital.
- (d) On January 22, 2007, a Peruvian subsidiary acquired a fishing vessel from a third party for cash consideration of US\$2,891,700.

36 EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

- (e) On March 14, 2007, CFG Peru Investments Pte Ltd acquired 100% of the equity interest of Grenadine Bay Inc and its subsidiary for cash consideration of US\$14 million, of which US\$11.6 million had been deposited at the end of the financial year (Note 9).

Details of subsidiaries acquired are as follows:

Name of subsidiary	Country of incorporation and operation	Principal activities
Grenadine Bay Inc.	Panama	Investment holding
Yaviza S.A.C. (subsidiary of Grenadine Bay Inc.)	Peru	Operation of 4 fishing vessels and sale of anchovy

The net identifiable assets and goodwill arising from the acquisition are currently under assessment.

- (f) On March 31, 2007, the directors proposed the sub-division of the Company's ordinary shares of US\$0.10 each into two ordinary shares of US\$0.05 each. This sub-division is subject to approval of the shareholders of the Company at an Extraordinary General Meeting to be convened and the approval of the Singapore Exchange Securities Trading Limited.

37 COMPARATIVE FIGURES

Pursuant to a restructuring exercise to rationalise the structure of the Company and its subsidiaries in preparation for the listing of the Company's shares on the Singapore Exchange Securities Trading Limited, the Company had on July 1, 2005 acquired all the equity interest of the subsidiaries from its shareholders at a consideration of US\$30,504,637, thereby becoming the holding company of the Group after the restructuring exercise.

The Group resulting from the restructuring exercise is regarded as a continuing entity as entities within the Group were under common control both before and after the restructuring exercise. Accordingly, merger accounting principles were adopted to account for this common control combination by accounting for the combined entities as though the separate entities were continuing as before. Assets, liabilities, income and expenses of the entities within the Group were combined on a line by line basis. The consolidated balance sheet at December 31, 2005, the consolidated income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2005 have been prepared on a combined basis as if the current structure had been in existence throughout the year ended December 31, 2005.

Statement of Directors

In the opinion of the directors, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company as set out on pages 27 to 72 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006, and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

Sung Yu Ching
Managing Director

Chan Tak Hei
Finance Director

April 12, 2007

Supplementary Information

The reporting currency of the Group is in United States Dollars. A Singapore Dollars equivalent of the income statement and balance sheet of the Group is provided as Supplementary Information for shareholders and investors in Singapore.

BALANCE SHEET

As at December 31, 2006

	The Group (Unaudited)	
	2006	2005
	S\$'000	S\$'000
ASSETS		
Current assets:		
Cash and bank balances	88,693	19,676
Trade receivables	12,655	3,565
Other receivables and prepayments	104,974	34,107
Deferred expenses	10,656	4,541
Inventories	19,833	–
Current portion of deferred charter hire	21,225	9,315
	<hr/>	<hr/>
Total current assets	258,036	71,204
Non-current assets:		
Deferred charter hire	152,569	65,203
Property, plant and equipment	137,881	872
Deposit	17,841	–
Goodwill	69,193	–
Other intangible assets	37,797	–
	<hr/>	<hr/>
Total non-current assets	415,281	66,075
	<hr/>	<hr/>
Total assets	673,317	137,279
LIABILITIES AND EQUITY		
Current liabilities:		
Trade payables	16,938	2,409
Other payables and accrued expenses	32,967	1,406
Income tax payable	4,496	–
Current portion of finance leases	4,182	–
Bank overdrafts and current portion of bank loans	15,925	28,513
	<hr/>	<hr/>
Total current liabilities	74,508	32,328
Non-current liabilities:		
Finance leases	5,759	–
Bank loans	49,112	38,021
Senior notes	332,272	–
Statutory employees' profit share	10,271	–
Deferred tax liabilities	27,727	–
	<hr/>	<hr/>
Total non-current liabilities	425,141	38,021
Capital and reserve:		
Share capital	55,682	50,739
Reserves	117,986	16,191
	<hr/>	<hr/>
Total equity	173,668	66,930
	<hr/>	<hr/>
Total liabilities and equity	673,317	137,279
	<hr/>	<hr/>

INCOME STATEMENT

For the year ended December 31, 2006

	The Group (Unaudited)	
	2006 S\$'000	2005 S\$'000
Revenue	239,990	150,674
Cost of sales	(6,042)	–
Charter hire expenses	(48,183)	(25,105)
Vessel operating costs	(94,118)	(62,523)
Gross profit	91,647	63,046
Other operating income	3,978	195
Selling expenses	(2,161)	(7,891)
Administrative expenses	(10,662)	(1,326)
Finance costs	(8,341)	(3,029)
Profit before tax	74,461	50,995
Income tax expense	(690)	–
Profit for the year	<u>73,771</u>	<u>50,995</u>
Basic earnings per share (Singapore cents)	<u>21.00</u>	<u>16.72</u>
Diluted earnings per share (Singapore cents)	<u>21.00</u>	<u>16.72</u>

* Exchange rate

Year 2006: S\$1 = US\$0.6502

Year 2005: S\$1 = US\$0.6012

Shareholders' Information

SHAREHOLDERS' INFORMATION AS AT MARCH 12, 2007

Authorised share capital	:	US\$80,000,000
Issued and fully paid-up capital	:	US\$39,104,000
Class of shares	:	Ordinary share of US\$0.10 each
Voting rights	:	One vote per share

STATISTICS OF SHAREHOLDINGS

Size of Shareholding	Number of Shareholders		Number of Shares	
		%		%
1 – 999	8	1.79	167	0.00
1,000 – 10,000	390	87.05	1,246,563	0.32
10,001 – 1,000,000	40	8.93	2,106,000	0.54
1,000,001 and above	10	2.23	387,687,270	99.14
Total	<u>448</u>	<u>100.00</u>	<u>391,040,000</u>	<u>100.00</u>

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Super Investment Limited ⁽¹⁾	305,040,000	78.01	–	–
Zhonggang Fisheries Limited ^{(1) (3)}	–	–	305,040,000	78.01
Jade China Investments Limited ⁽¹⁾	–	–	305,040,000	78.01
Pacific Andes (Holdings) Limited ⁽³⁾	–	–	305,040,000	78.01
Sung Yu Ching ⁽²⁾	–	–	305,040,000	78.01

Notes:

- (1) Zhonggang Fisheries Limited and Jade China Investments Limited owns 49.9% and 48.1% respectively of Super Investment Limited, and are therefore deemed interested in 305,040,000 shares held by Super Investment Limited.
- (2) Mr Sung Yu Ching, who owns 100% of Jade China Investments Limited, is deemed interested in 305,040,000 shares held by Super Investment Limited.
- (3) Pacific Andes (Holdings) Limited, which owns 70% of Zhonggang Fisheries Limited, is deemed interested in 305,040,000 shares held by Super Investment Limited.

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	SUPER INVESTMENT LIMITED	305,040,000	78.01
2.	DBS NOMINEES PTE LTD	16,299,293	4.17
3.	CITIBANK NOMINEES SINGAPORE PTE LTD	15,339,700	3.92
4.	HSBC (SINGAPORE) NOMINEES PTE LTD	13,913,307	3.56
5.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	13,024,500	3.33
6.	RAFFLES NOMINEES PTE LTD	10,684,000	2.73
7.	DBSN SERVICES PTE LTD	5,665,470	1.45
8.	UNITED OVERSEAS BANK NOMINEES PTE LTD	2,838,000	0.73
9.	MERRILL LYNCH (SINGAPORE) PTE LTD	2,798,000	0.72
10.	SBI E2-CAPITAL ASIA SECURITIES PTE LTD	2,085,000	0.53
11.	DB NOMINEES (S) PTE LTD	812,000	0.21
12.	CIMB-GK SECURITIES PTE LTD	200,000	0.05
13.	DBS VICKERS SECURITIES (S) PTE LTD	138,000	0.04
14.	BOEY MUN HOI OR LAI YUET YUK	60,000	0.01
15.	TEO SWAY HEONG	50,000	0.01
16.	TEO YONG SENG	50,000	0.01
17.	WANG BEI	44,000	0.01
18.	PHILLIP SECURITIES PTE LTD	41,000	0.01
19.	UOB KAY HIAN PTE LTD	41,000	0.01
20.	OCBC SECURITIES PRIVATE LTD	39,000	0.01
	Total	<u>389,162,270</u>	<u>99.52</u>

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

21.99% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Fishery Group Limited (the "Company") will be held at The Casaurina, Suite B, Level 3, Raffles Hotel, 1 Beach Road, Singapore 189673 on Monday, April 30, 2007 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended December 31, 2006 together with the Auditors' Report thereon.
[See Explanatory Note (i)]

(Resolution 1)
2. To declare a final dividend of 2.22 Singapore cents per ordinary share (tax not applicable) for the year ended December 31, 2006 [2005: 2.36 Singapore cents per ordinary share (tax not applicable)].

(Resolution 2)
3. (i) To re-elect Mr Ng Joo Siang, a Director retiring pursuant to Article 111 of the Company's Articles of Association.

(Resolution 3)

(ii) To re-elect the following Directors retiring by rotation pursuant to Article 107 of the Company's Articles of Association:

Mr Ng Joo Kwee	(Resolution 4)
Mr Chan Tak Hei	(Resolution 5)
Mr Cheng Nai Ming	(Resolution 6)
4. To approve the payment of Directors' fees of HK\$720,000 (equivalent to US\$92,308 or S\$141,480) for the year ending December 31, 2007, payable monthly in arrears [2006: HK\$720,000 (equivalent to US\$92,308 or S\$150,028)].

(Resolution 7)
5. To re-appoint Deloitte & Touche as the Company's Auditors and to authorise the Directors to fix their remuneration.

(Resolution 8)
6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolution, with or without any modifications:

7. Authority to allot and issue shares up to 50 per centum (50%) of issued share capital

That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, authority be given to the Directors of the Company to issue shares ("Shares") whether by way of rights, bonus or otherwise, and/or make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and to such persons as the Directors may, in their absolute discretion, deem fit provided that:

- (a) the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per centum (50%) of the issued shares in the capital of the Company at the time of the passing of this Resolution, of which the aggregate number of Shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the issued shares in the Company;

- (b) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the percentage of issued shares shall be based on the issued shares of the Company as at the date of the passing of this Resolution, after adjusting for:
- (i) new Shares arising from the conversion or exercise of convertible securities;
 - (ii) new Shares arising from exercising share options or vesting of Share awards outstanding or subsisting at the time this Resolution is passed; and
 - (iii) any subsequent consolidation or subdivision of Shares;
- (c) and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force (i) until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities.
- [See Explanatory Note (ii)]

(Resolution 9)

By Order of the Board

Yvonne Choo
Maurice Ngai
Company Secretaries

Singapore, April 4, 2007

Explanatory Notes:

- (i) The Annual Report 2006 of the Company (including the Directors' Report and the Audited Accounts for the year ended December 31, 2006 together with the Auditors' Report thereon) would be despatched to shareholders on April 13, 2007 in accordance with the provisions of Article 174 of the Company's Articles of Association.
- (ii) The Ordinary Resolution 9 proposed in item 7 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty per centum (50%) of the issued shares in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro rata basis.

Notes:

1. A Shareholder being a Depositor whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore) is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. If a Depositor wishes to appoint a proxy/proxies to attend the Meeting, then he/she must complete and deposit the Depositor Proxy Form at the office of the Singapore Share Transfer Agent, B.A.C.S. Private Limited at 63 Cantonment Road, Singapore 089758, at least forty-eight (48) hours before the time of the Meeting.
3. If the Depositor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

Notice of Books Closure

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of China Fishery Group Limited (the “Company”) will be closed on May 11, 2007 for the preparation of dividend warrants.

Duly completed registrable transfers received by the Company’s Share Transfer Agent in Singapore, B.A.C.S. Private Limited at 63 Cantonment Road, Singapore 089758, up to 5.00 p.m. on May 10, 2007 will be registered to determine shareholders’ entitlements to the said dividend. Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares at 5.00 p.m. on May 10, 2007 will be entitled to the proposed dividend.

Payment of the dividend, if approved by the shareholders at the Annual General Meeting of the Company to be held on April 30, 2007, will be made on May 30, 2007.



CHINA FISHERY GROUP LIMITED

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