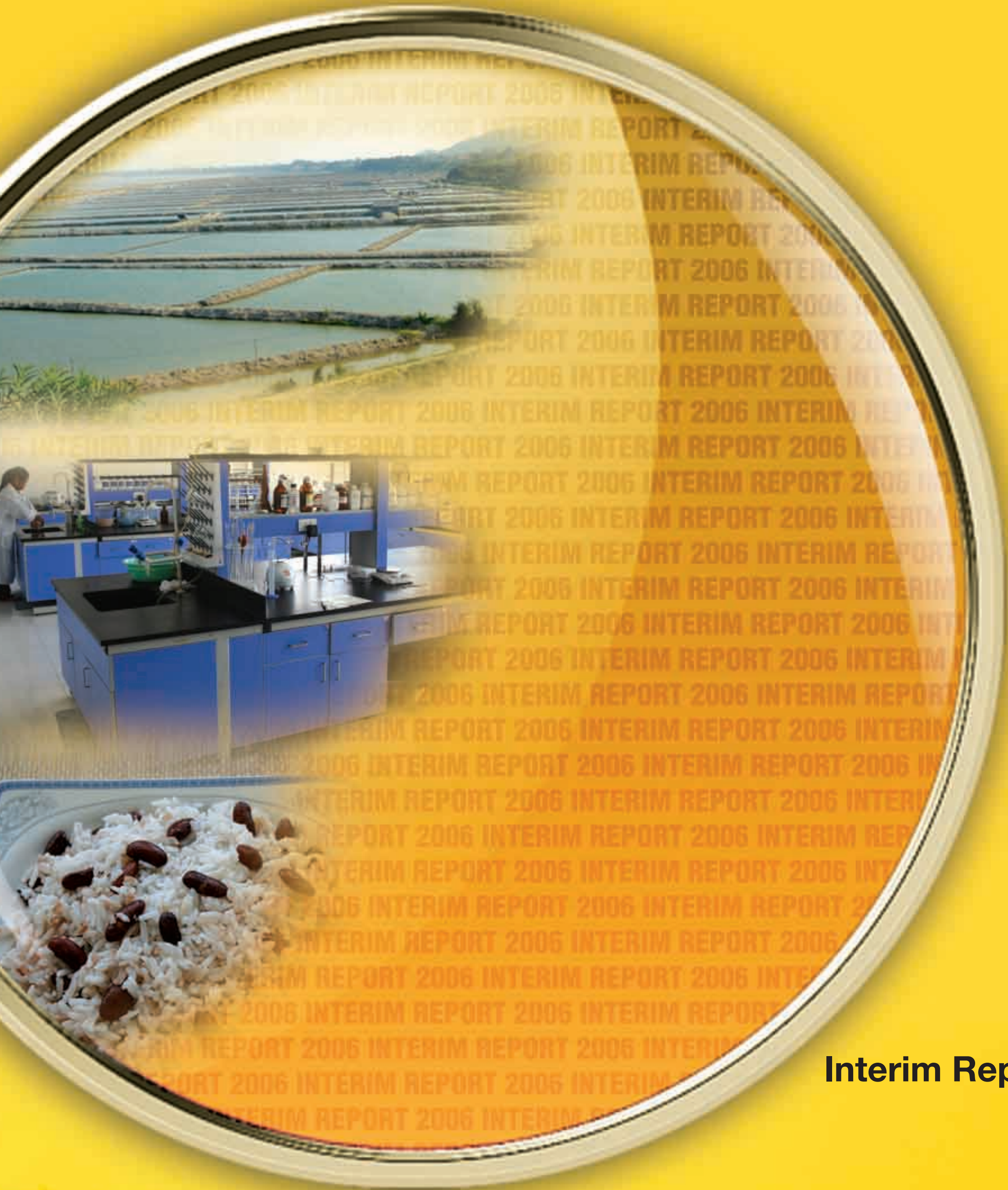

Interim Report 2006

Stock Code: 1076

FIRST NATURAL FOODS

HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

The board of directors (the "Board") of First Natural Foods Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Note	For the six months ended 30 June **2006** **RMB'000** **(Unaudited)**	 2005 RMB'000 (Unaudited)
Turnover	3	**260,292**	232,570
Cost of sales		**(139,632)**	(118,988)
Gross profit		**120,660**	113,582
Other revenue	5	**2,159**	956
Distribution costs		**(813)**	(1,967)
General and administrative expenses		**(19,689)**	(14,038)
Other operating expenses		**(2,235)**	(1,783)
Profit from operations		**100,082**	96,750
Finance costs	6(a)	**(4,100)**	(3,538)
Profit before tax	6	**95,982**	93,212
Income Tax	7(a)	**(25,965)**	(24,866)
Profit attributable to shareholders		**70,017**	68,346
Dividends	8	**14,362**	29,207
Earnings per share			
— Basic	9(a)	**RMB7.57 cents**	RMB7.44 cents
— Diluted	9(b)	**RMB7.14 cents**	RMB7.15 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Note	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**157,001**	151,951
Leasehold land and rental prepayments		**10,925**	17,260
Deferred tax assets		**1,717**	912
		169,643	170,123
CURRENT ASSETS			
Leasehold land and rental prepayments		**12,060**	13,078
Inventories	11	**44,115**	28,756
Trade and other receivables	12	**126,170**	76,424
Cash and cash equivalents		**598,121**	582,185
		780,466	700,443
CURRENT LIABILITIES			
Trade and other payables	13	**12,934**	30,440
Bank loans, unsecured		**78,923**	71,140
Coupon bonds	14	**32,666**	31,977
Provision for staff welfare benefit		**14,641**	13,960
Taxation payable	7(b)	**11,039**	5,981
		150,203	153,498
NET CURRENT ASSETS		**630,263**	546,945
TOTAL ASSETS LESS CURRENT LIABILITIES		**799,906**	717,068
NON-CURRENT LIABILITIES			
Bank loans, unsecured		**17,167**	—
Deferred tax liabilities		**628**	—
		17,795	—
NET ASSETS		**782,111**	717,068
CAPITAL AND RESERVES			
Share capital	15	**49,024**	48,679
Reserves	15	**733,087**	668,389
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**782,111**	717,068

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	**19,710**	50,049
Net cash outflow from investing activities	**(13,057)**	(11,862)
Net cash inflow/(outflow) from financing activities	**10,888**	(33,116)
Increase in cash and cash equivalents	**17,541**	5,071
Cash and cash equivalent at 1 January	**582,185**	494,950
Effect of foreign exchange rate change, net	**(1,605)**	—
Cash and cash equivalent at 30 June	**598,121**	500,021

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Note	**For the six months ended 30 June 2006 (Unaudited)**		For the six months ended 30 June 2005 (Unaudited)	
		RMB'000	**RMB'000**	RMB'000	RMB'000
Shareholders' equity at 1 January			**717,068**		631,780
Net profit for the period			**70,017**		68,346
Dividend approved during the period			**(14,362)**		(29,207)
Reversal of deferred tax liability on amortization of equity component of coupon bonds			**180**		179
Exchange adjustment			**(1,422)**		—
Movement in shareholders' equity arising from capital transactions					
— Shares issued		**345**		—	
— Net premium received		**3,030**		—	
— Equity settled share-based transactions		**7,255**		138	
			10,630		138
Shareholders' equity at 30 June			**782,111**		671,236

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements except for new standards amendments to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2006 as stated in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2005 that is included in the unaudited interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 April 2006.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2005 except for the following new standards, amendments to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2006:

Amendment to HKAS 19	Actuarial gains and losses, group plans and disclosures
Amendment to HKAS 21	Net investment in a foreign operation
Amendment to HKAS 39	Cash flow hedge accounting of forecast intragroup transactions
Amendment to HKAS 39	The fair value option
Amendment to HKAS 39 and HKFRS 4	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HK(IFRIC)-Int 4	Determining whether an arrangement contains a lease
HK(IFRIC)-Int 5	Rights to interests arising from decommissioning restoration and environmental rehabilitation funds
HK(IFRIC)-Int 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment (this interpretation is effective for accounting periods beginning on or after 1 December 2005)

The adoption of amendments to HKASs 19, 21, 39 and HKFRS 4, HKFRS 6 and HK(IFRIC)-Int 4, 5 and 6 did not result in significant changes to the Group's accounting policies.

2. CHANGES IN ACCOUNTING POLICIES (continued)

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ending 31 December 2006 and have not been early adopted by the Group:

Amendment to HKAS 1	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of embedded derivatives

The Group is in the process of assessing the impact of these new standards, amendments to standards and interpretations and is not yet in a position to state the potential impact all these new standards, amendments to standards and interpretations would have on its results of operations and financial position.

3. TURNOVER

The principal activities of the Group are manufacturing and sales of food products.

Turnover represents the sales value of goods supplied to customers, which excludes value-added tax and is after deduction of any goods returns and trade discounts.

4. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segment. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

Business segments

The Group comprises the following main business segments:

Frozen marine food products	:	The manufacture and sales of frozen marine food products
Frozen functional food products	:	The manufacture and sales of frozen functional food products
Frozen seasoned convenient food products	:	The manufacture and sales of frozen seasoned convenient food products

4. SEGMENT INFORMATION (continued)

Business segments (continued)

	For the six months ended 30 June (unaudited)							
	Frozen marine food products		Frozen functional food products		Frozen seasoned convenient food products		Consolidated	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Revenue from external customers	**145,785**	104,587	**113,833**	126,479	**674**	1,504	**260,292**	232,570
Segment result	**69,746**	51,687	**50,574**	61,161	**340**	734	**120,660**	113,582
Unallocated operating income and expenses							**(20,578)**	(16,832)
Profit from operations							**100,082**	96,750
Finance costs							**(4,100)**	(3,538)
Taxation							**(25,965)**	(24,866)
Profit attributable to shareholders							**70,017**	68,346

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the destination of delivery of goods.

	For the six months ended 30 June (unaudited)							
	Japan		United State of America		Others		Consolidated	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Revenue from external customers	**161,739**	165,417	**86,179**	54,947	**12,374**	12,206	**260,292**	232,570

5. OTHER REVENUE

	For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Subsidy income*	**100**	100
Interest income from banks	**2,052**	836
Others	**7**	20
	2,159	956

* Subsidy income represents discretionary grants received from a PRC local government authority in respect of the development of agricultural products carried out by Fuqing Longyu Food Development Co., Ltd., a wholly owned subsidiary of the Company.

6. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

		For the six months ended 30 June	
		2006	2005
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
			(Restated)
(a)	Finance costs		
	Interest on borrowings wholly repayable within five years		
	— bank loans	**2,636**	2,048
	— coupon bond	**439**	465
	— interest accrued	**1,025**	1,025
		4,100	3,538
(b)	Other items		
	Cost of inventories#	**139,632**	118,988
	Staff cost#	**11,840**	4,605
	Depreciation of property, plant and equipment#	**7,856**	8,025
	Amortisation of leasehold land and rental prepayments	**7,713**	6,866
	Operating lease charges in respect of premises	**607**	306
	Impairment for obsolete and slow moving inventories	**810**	764
	Impairment for bad and doubtful debts	**682**	1,726

Cost of inventories includes staff costs of approximately RMB2,213,000 (2005: approximately RMB2,777,000) and depreciation expenses of approximately RMB7,082,000 (2005: approximately RMB6,978,000) that have also been included in the respective total amounts disclosed separately above.

7. INCOME TAX

(a) Tax in the condensed consolidated income statement represents:

	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC enterprise income tax	**25,965**	24,866

7. INCOME TAX (continued)

Note:

(i) Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group had no estimated assessable profits arising in or derived from Hong Kong (2005:Nil).

(ii) PRC enterprise income tax

Fuqing Longyu Food Development Co., Ltd., a wholly owned subsidiary established in the Coastal Open Economic Area of PRC, is subject to the PRC enterprise income tax at a rate of 24%.

Hence, the PRC enterprise income tax for the six months ended 30 June 2006 presented was at the rate of 24% (2005: 24%) on the estimated assessable profit.

(iii) Deferred taxation

No deferred tax assets has been recognized for the period ended 30 June 2006 as there has been no material temporary difference for tax purpose.

(b) Taxation in the consolidated balance sheet represents:

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
PRC enterprise income tax	**11,039**	5,981

(c) Movement of deferred tax liabilities in the consolidated balance sheet is as follows:

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Balance brought forward	**808**	1,166
Credited to equity for amortization of equity component of coupon bonds	**(180)**	(358)
Balance carried forward	**628**	808

8. DIVIDENDS

(a) The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

(b) Dividends attributable to the financial year ended 31 December 2005, approved and paid during the period:

	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final dividend paid HK$0.015 (equivalent to approximately RMB0.0155) per ordinary share (2005: HK$0.03 equivalent to approximately RMB0.0318)	**14,362**	29,207

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the period ended 30 June 2006 is based on the profit attributable to shareholders of approximately RMB70,017,000 (2005: approximately RMB68,346,000) and the weighted average of 925,142,000 (2005: 918,472,000) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 June 2006 is based on the profit attributable to shareholders of approximately RMB70,017,000 (2005: approximately RMB68,346,000) and the weighted average number of 980,143,000 (2005: 955,921,000) ordinary shares after adjusting for the effects of all dilutive ordinary potential shares.

(c) Reconciliations

	2006 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**925,142,000**
Deemed issue of ordinary shares	
— shares options	**6,710,000**
— warrants	**48,291,000**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**980,143,000**

10. ADDITION TO FIXED ASSETS

During the period, the Group incurred approximately RMB247,000 (six months ended 30 June 2005: approximately RMB213,000) for the purchase of furniture and equipment, motor vehicles and construction in progress and approximately RMB12,810,000 (six months ended 30 June 2005: approximately RMB485,000) on the manufacturing plant and machinery in Mainland China in order to enlarge the Group's production capacities.

11. INVENTORIES

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Raw materials, at cost	**3,262**	2,021
Finished goods, at cost	**43,880**	29,054
	47,142	31,075
Less: Impairment for obsolete and slow moving inventories	**(3,027)**	(2,319)
	44,115	28,756

12. TRADE AND OTHER RECEIVABLES

Trade receivables aged as follows:

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
0 to 1 month	**44,059**	44,163
1 to 3 months	**40,640**	26,898
	84,699	71,061
Less: Impairment for bad and doubtful debts	**(4,233)**	(3,553)
Trade receivables, net	**80,466**	67,508
Other receivables, deposits and prepayments	**45,704**	8,916
	126,170	76,424

The Group generally does not grant any pre-determined credit terms to customers. Debts are usually settled within 3 months from the date of billing. Debtors with balance that are more than 3 months are requested to settle all outstanding balance before any further credit is granted.

13. TRADE AND OTHER PAYABLES

Trade payables aged as follows:

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Due within 1 month or on demand	**1,805**	230
Due after 1 month but within 3 months	**715**	724
Due after 3 months but within 6 months	**53**	97
Due after 6 months	**44**	44
Total trade payables	**2,617**	1,095
Finance costs payables	**—**	831
Accruals and other payables	**5,297**	1,491
Other tax payables	**2,567**	9,123
Due to a director	**2,453**	17,900
	12,934	30,440

14. COUPON BONDS

(a) The 2.5% coupon bonds (the "Bonds") with detachable warrants attached, having an aggregate principal in nominal amount of US$4,500,000 (equivalent to approximately RMB37,206,000), were issued on 10 April 2003 and will mature on 9 April 2008. Each bond is in the denomination of US$5,000 with a warrant attached. The Bonds bear interest at the coupon rate of 2.5% per annum, payable annually in arrears on 9 April each year.

The net proceeds received from the issue of the Bonds have been split between the liability element and an equity component, representing the fair value of the embedded warrant to convert the liability into equity of the Group, as follows:

	RMB'000
Nominal value of coupon bonds issued	37,206
Equity component (net of deferred tax)	(8,459)
Deferred tax liability	(1,795)
Liability component at date of issue on 10 April 2003	26,952

14. COUPON BONDS (continued)

During the period ended 30 June 2006, no bonds were redeemed, and as at 30 June 2006 and 31 December 2005, the liability component of the Bonds was analyzed as follows:

	Liability component	
	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Balance brought forward	**31,977**	30,541
Exchange adjustments	**(336)**	(615)
Accrued interest capitalised	**1,025**	2,051
Balance carried forward	**32,666**	31,977

(b) The holders of the Bonds (the "Bondholders") may elect to redeem the Bonds at par in accordance with the following schedule in (i):

(i) Date of redemption	RMB'000
Ex-warrant A Bonds 9 April 2004 ("A Bonds")	11,162
Ex-warrant B Bonds 9 April 2005 ("B Bonds")	11,162
Ex-warrant C Bonds 9 April 2006 ("C Bonds")	7,441
Ex-warrant D Bonds 9 April 2007 ("D Bonds")	7,441
	37,206

In the event that if the Bondholders do not elect to redeem the Bonds in accordance with the schedule mentioned above, the Company shall redeem the Bonds at par in accordance with the following schedule in (ii):

(ii) Date of redemption	RMB'000
Ex-warrant A Bonds 9 April 2006 ("A Bonds")	11,162
Ex-warrant B Bonds 9 April 2007 ("B Bonds")	11,162
Ex-warrant C Bonds 9 April 2007 ("C Bonds")	7,441
Ex-warrant D Bonds 9 April 2008 ("D Bonds")	7,441
	37,206

In consideration of any Bonds being redeemed in (ii) above, the Company shall issue, subject to obtaining all relevant approvals, to each Bondholder, one new warrant for each Bond. Further details of the warrants are set out in note 17.

On 14 June 2006, the Company announced that it had agreed with the Bondholders to redeem all Bonds outstanding on 31 July 2006, but the detachable warrants would remain outstanding. The details were set out in note 19(a). As at 30 June 2006, the Company had not redeemed any of the Bonds. All the Bonds were, therefore, classified as current liabilities in the financial statement.

15. RESERVES

	Share Capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory reserve fund RMB'000	Enterprise expansion reserve fund RMB'000	Employee share-based compensation reserve RMB'000	Coupon bonds-equity component RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2006	48,679	149,159	41,421	34,326	10,081	138	7,606	538	425,120	717,068
Exercise of share option	345	3,030	—	—	—	—	—	—	—	3,375
Dividend approved in respect of previous year (note 8(b))	—	—	—	—	—	—	—	—	(14,362)	(14,362)
Reversal of deferred tax liability on amortization of equity component of coupon bonds	—	—	—	—	—	—	180	—	—	180
Exchange adjustment	—	—	—	—	—	—	—	(1,422)	—	(1,422)
Equity settled share-based transactions	—	—	—	—	—	7,255	—	—	—	7,255
Profit for the period	—	—	—	—	—	—	—	—	70,017	70,017
At 30 June 2006	49,024	152,189	41,421	34,326	10,081	7,393	7,786	(884)	480,775	782,111
At 1 January 2005	48,679	149,159	41,421	20,767	10,081	—	7,248	—	354,425	631,780
Dividend approved in respect of previous year (note 8(b))	—	—	—	—	—	—	—	—	(29,207)	(29,207)
Reversal of deferred tax liability on amortization of equity component of coupon bonds	—	—	—	—	—	—	179	—	—	179
Equity settled share-based transactions	—	—	—	—	—	138	—	—	—	138
Profit for the period	—	—	—	—	—	—	—	—	68,346	68,346
At 30 June 2005	48,679	149,159	41,421	20,767	10,081	138	7,427	—	393,564	671,236

16. COMMITMENTS

(a) Capital commitments outstanding at 30 June 2006 not provided for in the financial statements were as follows:

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Acquisition of fixed assets		
— authorized and contracted for	**41,106**	8,026
— authorized but not contracted for	**110,000**	4,342
	151,106	12,368

(b) At 30 June 2006, the total future minimum lease payments under non-cancellable operating leases in respect of premises were payable as follows:

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Within 1 year	**16,798**	15,796
After 1 year but within 5 years	**61,335**	61,491
After 5 years	**137,970**	144,540
	216,103	221,827

17. WARRANTS

The Company issued the coupon bonds (see note 14) with detachable warrants attached. The holders of the warrants (the "Warrantholders") can exercise the subscription rights attaching to the warrants, in whole or in part, at any time from 10 April 2003 to 9 April 2008 (both days inclusive) to subscribe for the shares of the Company ("Subscription Shares") by either (i) delivering the bonds, so long as the bonds are not redeemed or (ii) paying the amount for the subscription, at an exercise price subject to adjustment ("Subscription Price").

The number of Subscription Shares to which a Warrantholder will be entitled for each warrant will be calculated by dividing the nominal amount of US$5,000 by the Subscription Price.

The latest adjusted subscription price is HK$0.295 per share, subject to adjustment. The warrants are not listed on the Stock Exchange or any other stock market.

During the six months ended 30 June 2006, no warrants were exercised by the Warrantholders to subscribe the Company's shares.

Terms of unexpired and unexercised warrants:

		Number of warrants	
Date of grant	**Exercisable period**	**At 30 June 2006**	At 31 December 2005
10 April 2003	10 April 2003 to 9 April 2008	**710**	710

18. CONTINGENT LIABILITIES

At 30 June 2006, the company had the contingent liabilities in respect of bank loan facilities extended to a subsidiary of approximately amounting to RMB41,500,000 (2005: RMB41,500,000).

19. POST BALANCE SHEET EVENTS

(a) Redemption of outstanding bonds

On 31 July 2006, the company redeemed all the bonds outstanding, which were issued under the subscription agreement dated 28 March 2003, together with the accrued interest approximately US$4,535,316. The warrants will remain outstanding.

(b) Loan agreement

On 21 July 2006, the Company as borrower had entered into a loan agreement with a syndicate of banks as lenders a 3-year term loan facility of up to HK$195,000,000 which was used to partially refinance the HK$60,000,000 syndicated credit facility granted to the Company by a group of financial institutions in December 2003. Further details were set out in the Company's announcement dated 21 July 2006.

In addition, on 25 July 2006, the Company accepted a revolving loan from China Construction Bank (Asia) Limited amounting USD5,000,000 with the interest rates at 1.75% over LIBOR.

(c) Issue of the convertible note

On 11 August 2006, the Company entered into a subscription agreement with the subscriber in relation to the issue and subscription of a convertible note. Pursuant to the subscription agreement, the Company has agreed to issue and the subscriber has agreed to subscribe for the convertible note in an aggregate principal amount of HK$116,000,000 with 3% interest per annum and is payable on a semi-annual basis. Subject to certain adjustment, the convertible note will be convertible into the conversion shares at the initial conversion price of HK$0.85 per share.

Further details were set out in the Company's announcement dated 11 August 2006.

(d) Investment in a subsidiary

A wholly owned subsidiary Ningbo Dingwei Food Development Limited (寧波頂味食品開發有限公司) ("Ningbo Dingwei") was established as foreign-owned enterprise. The registered and paid-in capital of Ningbo Dingwei are US$3,000,000 and US$1,500,000 respectively. The operating period of the Ningbo Dingwei is 20 years commencing from 29 March 2006. The paid-in capital was injected to Ningbo Dingwei after balance sheet date. Ningbo Dingwei had not yet commenced business during the period ended 30 June 2006 and its proposed business activities are seafood processing and fishery paste manufacturing.

(e) Warrants

After balance sheet date, the warrantholders exercised 50 detachable warrants issued on 10 April 2003 to subscribe 6,598,220 ordinary shares in the Company at exercise price of HK$0.295 (equivalent to approximately RMB0.30) per ordinary share. The total consideration was approximately HK$1,946,000 (equivalent to approximately RMB1,979,000). Subsequently, the numbers of outstanding warrants were reduced to 660.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation of the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

For the period ended 30 June 2006, the Group recorded turnover and gross profit of RMB260,292,000 (2005: RMB232,570,000) and RMB120,660,000 (2005: RMB113,582,000) respectively. Profit attributable to shareholders amounted to RMB70,017,000 (2005: RMB68,346,000). As the turnaround of export volume of food products happened in the PRC, the half-yearly performance of the Group was fairly improved. The robust increases of the Group's customers' orders resulted in the highest turnover and an increase of approximately 11.9% as compared with the corresponding period. Compared with the corresponding period in 2005, the gross profit had increased by 6.2%. Profit attributable to shareholders increased slightly by approximately 2.4%, compared with the corresponding period in 2005.

1. Huge Market Demand of PRC Marine Food Products

The People's of Republic of China (the "PRC") has been the No.1 marine food products exporter in the world since 2002. During the first six months, it still recorded a fast-growing trend with export volume of marine food products reached 1.325 million tons and export amount reached US$4.07 billion, representing a growth of 12.6% and 13.2% respectively, compared with the same period last year. The primary frozen marine products accounted for 57.5% of the total export, and the processed food products comprised the remaining 42.5%. The export marine products mainly include the clam, eel, prawn, and tilapia fish, all of these made up 60% of the total export of the marine food products. Japan, the US, the EU and Korea were the four largest importers of the PRC marine food products, making up 81% of the total export, with Japan remained the largest importer, accounting for 35.8% of the total export. Meanwhile, the provinces along the coast including Shandong, Guangdong, Liaoning, Zhejiang and Fujian Provinces made up 89.9% of the total export of marine food products.

Due to the strong consuming power prevailed over the global markets, the export of both clam and tilapia fish has recorded a robust growth. Clam product was the first time became the main export item, with its export volume increased by 21.7%. Vast amount of clam products not only marketed to Japan and Korea, but also South America, the Oceania regions and South America.

According to the statistic conducted by the China Customs, the total export of marine food products from Fujian Province reached US$655 million, and created US$479 million foreign exchange during the period from January to June 2006, representing a slight increase compared with the same period last year. The main export markets including Japan, the US, Korea, Malaysia, Philippines, Hong Kong, Taiwan and Indonesia, made up 91.8% of the total export from Fujian Province.

2. Business Review

(1) *Frozen Marine Food Products*

The stronger growth of turnover showed an increase of approximately 39.4% over the corresponding period in 2005. Benefited from the facelift of the Group's products packaging including new packing boxes, new packing materials, smaller packing sizes which applied to clams and flying fish roe products, the respective sales increased by 20% and 10% during the first half of 2006. Moreover, a special complex-coating material was adopted for the new packaging of clam products, which enhances the oxygen-blocking function of the packing. Besides, the new smaller paper boxes packing for flying fish roe products were able to meet the demand from different family groups.

In May 2006, Fairwood Holdings Limited ("Fairwood"), a listed company operating fast food chain stores in Hong Kong, recognized the Group's products quality and safety after visiting the plant in Fuqing, and invited the Group to become its clams supplier. Such partnership with Fairwood has strengthened the Group's confidence in working with the sizeable fast food chain stores in the future.

(2) *Convenient Rice Pack and Other High-temperature Convenient Food Series*

As a prime profit driver, the Group has successfully launched convenient rice pack and other high-temperature convenient food products. Two production lines have been operating since June 2006 and the daily output of convenient rice pack and tuna convenient products are expected to be 25,000 packs and 100,000 packs respectively. Currently, the Group has received orders of 1,500,000 packs of convenient rice and 5,000,000 packs of tuna convenient products from Select Brands USA LLC. To cope with market demand, the Group is committed to launch a series of meal packs with different flavors in the second half of 2006. The Group also realized the potential of convenient meal packs, and therefore plans to further develop new products, such as convenient soup with clams and convenient soup with vegetables.

In respect of technical update on convenient meal packs, the Group has continued to cooperate with the Food Study Centre of Fujian Agriculture and Forestry University and Interface Protein Technology, Inc. USA. In terms of capital investments for the quality assurance program in the production process, the Group had installed 2 metal detectors imported from Japan.

(3) *Frozen Functional Foods*

Japan raised the security requirement standard towards the imported marine food products from the PRC on 29 May 2006. In particularly, the requirements of these new food hygienic policies have greatly affected the export of the PRC roasted eel products. For this reason, the Group has stepped up a series of measurements to alleviate the impact from the stringent food inspection requirements: (1) using advanced liquid chromatography to shorten inspection cycle and enhance passing rates of qualified products, (2) setting up more efficient hygiene control system for the entire production process, and (3) maintaining a good communication with related government authorities and departments to ensure the updated hygienic requirement of roasted eel products.

More importantly, the Group's leased sea-water eel farm was accredited as the role model for good quality control and best practices in the industry by Fujian Province Authority in July 2006. This recognition made the Group's eel products more competitive as a result of the lower inspection costs.

Processed flying fish roes were produced in different flavors and packing sizes. These characteristics also enable its sales continue to increase and to become one of the best selling products of the Group.

3. Quality Assurance Control

During the period under review, the Group had conducted a professional environmental study on its aqua farm in Sanshan of Fuqing Province and its surrounding areas. The survey confirmed that the farm was an ideal natural breeding farm, exposing to low risk from industrial pollution. Also, the water quality met the Fishery Breeding Standards. Accordingly, materials from this aqua farm were guaranteed to the export standards.

As a comprehensive control program, the Group decided to undertake regular inspections on other leased cultivation farms and its surrounding areas in the future.

4. Fundamental Facilities Enhancements

In line with the substantial increase in production capacities, the Group has been improving the core facilities in Fujian plant premises since the beginning of the year 2006. The Group expects the entire project to be completed by the end of this year. Details of the improvements are as follows:

(1) *Frozen Storage Warehouse and Ammonia Generator Room Enhancement*

In order to support the new high-temperature convenient food product series, the cold storage facilities are needed to be upgraded and expanded. The Group modified ammonia generator facility and re-engineered the existing storage rooms to high, medium, and low temperature compartments. These facility enhancements not only save energies, but also help protecting the natural environment and meet the production requirements.

(2) *Water Supply System Enhancement*

Due to the necessity of maintaining a higher quality of water supply to satisfy the large consumption in the production process, the Group installed the advanced Cannular Extra-Filtration Pure Water Processing Technology, which can filter 40 tons of water per hour. Besides, the Group renovated the pipes and drainages system in the existing workshops, so as to ensure the higher standard of water supply.

(3) *Electricity Supply Enhancement*

A reliable electricity supply system must be in place to satisfy the Group's increasing production capability, therefore, the Group has been improving the electricity system and transient electricity distribution system. After the improvements, the Group's total volume of electric power will increase from 1,260 volts to 2,000 volts, which will be able to provide sufficient and stable electrical power supply.

PROSPECTS

For the second half of the year, the Group's convenient meal packs production will be in full swing. Besides, the Group is intended to implement certain possible investments to boost the return to its shareholders.

1. Beating Customers' Expectation

The launch of the convenient rice pack and tuna products in the international markets highlight the Group's substantial requirements and expectations on production capability, product innovations, product diversity, etc. At the planning stage, Select Brands USA LLC has involved in the set up of production lines, art design, technical criteria setting and other technical matters. Based on their advanced sterilization technology, the Group applies jet-flows methodology for its sterilization process to preserve original products texture, nutrition and color, making Select Brands USA LLC highly appreciated the Group's incremental effort on food-processing development. To further expand the high-temperature convenient foods production, the Group has determined to invest at least approximately RMB150,000,000 on the following items:

(1) The Group will acquire two new production lines and assemblies from the existing equipment supplier and the annual product yield of these two lines will be approximately 3,600 tons.

(2) The Group will construct a new plant with three floors, occupying 10,000 sq.m. of gross floor area in existing plant premises. The new plant will include production workshops, laboratories, quality controlling centers, as well as advanced production lines and assemblies installed for high-temperature convenient foods. The construction is estimated to be completed by the end of 2007.

(3) In order to select stable organic rice as the ingredient of convenient rice products, the Group undertook a feasibility study on a crop farm in Northern China, and started constructive negotiations with the landlord and is pending to reach the agreement. The contemplated farm size is about 5,000 mu of gross area and the expected annual yield is about 2,000 tons.

2. Investment in Brand New Delicacies

Seeing that frozen fish meat can be generated into varieties of high-end artificial seafood products, marine healthcare food products and other convenient food products with the original appearance, taste, smell, and nutritional value well-preserved, the Group grasps the business opportunity of the increasing demand of the products in the international markets. However, as some of the fish processors use low-quality sea fish or coarse fish to produce frozen fish meat products, the products qualities are unstable and some of the products even contain over-dosed antibiotics. Such kinds of inferior products are restricted to export to the EU, the US and other countries, and inevitably affect the total export of fish meat products.

Strategically, the Group plans to broaden its product ranges by developing frozen fish meat products and artificial seafood products, with comparable level of margins expected to run in parallel with its existing products. Relying on the strong commitments from the existing customers, the Group is determined to invest approximately

RMB100,000,000, to set up a processing plant in (浙江省象山縣高塘島鄉金高椅村) Xiangshan County Gao Tang Dao Town Jin Gao Yi Village of Zhejiang Province. The Group was granted 20 mu of land and relevant approvals from the Zhejiang governmental departments in August. Xiangshan County is one of the six largest fishing harbors in China rich in natural marine resources.

The fishery plant is estimated to be completed in the first half of 2007, and will be operating in the second half of 2007. It is expected the annual yield can reach 11,000 tons and the products will be mainly exported to Japan and the US markets.

3. 'Longyu' Chain Stores

Given the significance of the affluent market in the PRC, the Group considers thoroughfully to enter the food business in domestic market. It is also beneficial for the Group to secure the additional fund to meet the expansion. Subsequent to balance sheet date, the Company entered into the subscription agreement ("Subscription Agreement") with DKR SoundShore Oasis Holding Fund Limited (the "Subscriber") in relation to the issue and subscription of the redeemable convertible note (the "Convertible Note") in the principal amount of HK$116,000,000. The Convertible Note bears interest at 3% per annum and payable on a half-yearly basis.

The Group is intended to apply the raising fund to integrate vertically into the sales channel in the PRC, by means of setting up 20 to 30 "Longyu Food" retail chain stores, and 6 distribution centers in major PRC cities during 2007 and 2008 respectively. At first, stores are chosen to establish in the affluent hubs, such as Beijing, Shanghai and Xian and then the next target will be those PRC cities lacking marine products, such as Ningxia, Chengdu and Chongqing. The chain stores will mainly sell the "Longyu" frozen marine products together with other high-temperature food products.

The Group positions itself as medium and high-end products provider. As such, the Group intends to build up its brand image and differentiate its products from other items in the markets. The objective of running chain stores is to promote the Group's quality products in the PRC, as well as establish points for its own distribution network as early as possible. Ultimately, the Group anticipates that the greater versatility from retail chain stores will tout local wholesalers to join its distribution sales networks.

4. Gearing Up Research and Development Capabilities

Given the insight on the fact that competence on food testing is indispensable with food quality, the Group intends to upgrade the existing advanced liquid and gas chromatography inspection equipment, to expedite the analysis on food testing and enhance the accuracy of the results. After upgrading, the inspection cycle will reduce to 2.5 hours from 4 hours and 70 extra inspection items can be analyzed by the upgraded equipment. Furthermore, the Group will also reinforce the internal management and step up the implementation of a series of measures against the stringent hygienic requirements from the overseas authority.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2006, the Group's total borrowings were approximately RMB128,756,000 (2005: approximately RMB103,117,000). They included two 3-year term loans from Hong Kong, Macau and overseas banks. The total outstanding balances therefrom amounted to approximately HK$43,000,000 which is equivalent to approximately RMB44,290,000 (2005: approximately RMB29,640,000). Terms are determined at the floating rates on 1.75% and 2% over 3-month HIBOR rate respectively. The Group also had revolving term loans of approximately RMB51,800,000 (2005: approximately RMB41,500,000) from a PRC bank and an overseas bank. The PRC loans were charged at a fixed rate ranging at 5.841% to 5.850% per annum and the other loan was charged at 2.75% over 1-month HIBOR rate.

The Group had coupon bonds of approximately RMB32,666,000 (2005: approximately RMB31,977,000). Coupon bonds together with detachable warrants attached will be due on 9 April 2008. The issues of the coupon bonds were divided into 4 tranches. Each "A Bonds" and "B Bonds" were in the nominal amount of US$1,350,000 while the "C Bonds" and "D Bonds" were in the nominal amount of US$900,000 respectively. The coupon bonds were charged at a fixed rate of 2.5% per annum and payable in arrears from the date of issue.

On 14 June 2006, the Company announced that it had agreed with the Bondholders to redeem all Bonds outstanding on 31 July 2006, but the detachable warrants would remain outstanding. As at 30 June 2006 the Company had not redeemed any of the Bonds. All the Bonds were, therefore, classified as current liabilities in the financial statements. On 31 July 2006, the Company redeemed all the outstanding Bonds which were issued under the subscription agreements dated 28 March 2003.

As at 30 June 2006 the Group had a gearing ratio of approximately 14% (2005: approximately 12%). The ratio is computed as interest bearing liabilities divided by total assets.

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

Within 1 year	87%
After 1 year but within 5 years	13%

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

TREASURY POLICY

As at 30 June 2006, the Group had cash and cash equivalents of approximately RMB598,121,000 (2005: approximately RMB582,185,000). The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong for the purposes to meet the Group's working capital requirements and funding its capital expenditures.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2006, the Group had approximately 650 employees (2005: approximately 700 employees). The Group's employees were paid at fixed remuneration. Full-time staff in Hong Kong office are qualified for Hong Kong Mandatory Provident Fund and staff in the PRC wholly subsidiary are vested the Group's contribution to the state sponsored retirement plan.

During the period under review, the total staff costs of the Group were approximately RMB11,840,000 (2005: approximately RMB4,605,000).

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

As at 30 June 2006, the Company had already granted 70,500,000 (2005:33,000,000) share options to the directors and employees under the 2004 Scheme. There had been a total of 6,670,000 share options exercised during the period of review.

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

For the year ended 30 June 2006, the Group had conducted its business transactions principally in US dollars and Renminbi. The Group did not experience any material difficulties or negative effects on its operations as a result of fluctuations in currency exchange rates. In this respect, the Group would continue to monitor the foreign exchange exposure and would take prudent measures as deemed appropriate.

SIGNIFICANT INVESTMENT AND ACQUISITION

During the period under review, the Group made no significant investment nor did it make any material acquisition or disposal of subsidiaries and associates.

CAPITAL COMMITMENT

As at 30 June 2006, in respect of assets acquisition, the Group had the transactions of authorized and contracted for and authorized but not contracted for which are described in note 16 to the financial statements.

CHARGES ON ASSETS

As at 30 June 2006, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group had the contingent liabilities which are described in note 18 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2006, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares of the Company

Name of Director	Number of ordinary shares Personal interests	Family interests	Corporate interests	Total	Approximately percentage of issued share capital
Yeung Chung Lung	—	—	369,300,000 *(Note)*	369,300,000	39.92%
Ni Chao Peng	2,000,000	—	—	2,000,000	0.22%

Note: Held through Regal Splendid Limited which is wholly-owned by Mr. Yeung Chung Lung.

Long positions in underlying shares of the Company

Share Options in the Company

Name of Director	Date of grant	Exercise price HK$	Exercisable period	No. of shares in respect of options outstanding as at 30 June 2006
Yeung Chung Lung	23/07/2004	0.489	23/07/2004-22/07/2014	3,000,000
	28/04/2006	0.690	28/04/2006-27/04/2016	5,000,000
Yang Le	23/07/2004	0.489	23/07/2004-22/07/2014	2,000,000
	28/04/2006	0.690	28/04/2006-27/04/2016	5,000,000
Ni Chao Peng	28/04/2006	0.690	28/04/2006-27/04/2016	5,000,000
Yip Tze Wai, Albert	23/07/2004	0.489	23/07/2004-22/07/2014	930,000
	28/04/2006	0.690	28/04/2006-27/04/2016	1,000,000
Tsui Chun Chung, Arthur	19/01/2005	0.560	19/01/2005-18/01/2015	500,000
Leung Chiu Shing	28/04/2006	0.690	28/04/2006-27/04/2016	500,000

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2006, so far as is known to the directors, the following parties (other than the directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Approximately percentage of issued share capital
Regal Splendid Limited *(Note 1)*	Beneficial owner	369,300,000	39.92%
Value Partners Limited *(Note 2)*	Investment manager	64,555,000	7.03%
Cheah Cheng Hye *(Note 2)*	Beneficial owner	1,100,000	
	Interest of child/spouse	300,000	
	Corporation	62,935,000	
		64,335,000	7.00%

Notes:

(1) Regal Splendid Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Yeung Chung Lung.

(2) Value Partners Limited is a company incorporated in the British Virgin Islands with limited liability which is owned as to 31.82% by Mr. Cheah Cheng Hye.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the headings "Share Option Scheme" below and "Directors' and Chief Executives' Interests in Securities" above, at no time during the period was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

On 4 June 2004, a share option scheme (the "2004 Scheme") has been adopted by the Company, the principal terms of which were set out in the Company's Annual Report 2005.

As at 30 June 2006, particulars of the options granted to the participants under the 2004 Scheme were as follows:

	Number of Shares in respect of Options							
Name or Category of participant	**Balance as at 1 January 2006**	**Granted during the period**	**Exercised during the period**	**Outstanding as at 30 June 2006** *(Note 1)*	**Date of grant**	**Exercisable period**	**Exercise price per share** HK$	**Weighted average closing price** *(Note 2)* HK$
Directors:								
Yeung Chung Lung	**3,000,000**	—	—	**3,000,000**	23/07/2004	23/07/2004–22/07/2014	0.489	—
		5,000,000	—	**5,000,000**	28/04/2006	28/04/2006–27/04/2016	0.690	—
Yang Le	**2,000,000**	—	—	**2,000,000**	23/07/2004	23/07/2004–22/07/2014	0.489	—
		5,000,000	—	**5,000,000**	28/04/2006	28/04/2006–27/04/2016	0.690	—
Ni Chao Peng	**2,000,000**	—	2,000,000	**—**	23/07/2004	23/07/2004–22/07/2014	0.489	0.66
		5,000,000	—	**5,000,000**	28/04/2006	28/04/2006–27/04/2016	0.690	—
Yip Tze Wai, Albert	**1,000,000**	—	70,000	**930,000**	23/07/2004	23/07/2004–22/07/2014	0.489	0.75
		1,000,000	—	**1,000,000**	28/04/2006	28/04/2006–27/04/2016	0.690	—
Tsui Chun Chung, Arthur	**500,000**	—	—	**500,000**	19/01/2005	19/01/2005–18/01/2015	0.560	—
Leung Chiu Shing	**—**	500,000	—	**500,000**	28/04/2006	28/04/2006–27/04/2016	0.690	—
Employees:								
In aggregate	**24,500,000**	—	4,600,000	**19,900,000**	23/07/2004	23/07/2004–22/07/2014	0.489	0.66
		20,000,000	—	**20,000,000**	27/04/2006	27/04/2006–26/04/2016	0.662	—
		1,000,000	—	**1,000,000**	28/04/2006	28/04/2006–27/04/2016	0.690	—
Total	**33,000,000**	37,500,000	6,670,000	**63,830,000**				

Notes:

1. No options have been cancelled or lapsed during the six months ended 30 June 2006.

2. This represents weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised. A total of 6,670,000 options were exercised during the six months ended 30 June 2006, the weighted average closing price of the share immediately before the dates on which the options were exercised was approximately HK$0.66.

3. The closing prices immediately before the dates of options granted 27 April 2006 and 28 April 2006 were HK$0.63 and HK$0.66 respectively.

4. The fair value of the options granted on 27 April 2006 and 28 April 2006 were approximately HK$3,662,000 and HK$3,348,000 (equivalent to approximately RMB3,790,000 and RMB3,465,000). The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following parameters:

(a)	Exercise price	
	— options granted on 27 April 2006	HK$0.662
	— options granted on 28 April 2006	HK$0.690
(b)	10-years exchange fund notes	
	— on 27 April 2006	4.842% p.a.
	— on 28 April 2006	4.803% p.a.
(c)	Volatility	39%
(d)	Expected dividend yield	5%
(e)	Expected life	10 years

The Black-Scholes option pricing model was developed to estimate the fair value of traded options which do not have vesting restrictions and are fully transferable. This pricing model requires the input of highly subjective assumptions, including the volatility of the share price. Any changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of professional appraiser, the model does not necessarily provide a reliable single measure of the fair value of the share options.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

As at 30 June 2006, circumstance which will trigger events of default of the Company under the banking facility document as far as the obligation of the controlling shareholder is concerned are as follows:

On 1 December 2003, the Company had entered into a facility agreement (the "Facility Agreement") with a syndicate of banks relating to a 3-year term loan facility of up to HK$60,000,000. Under the Facility Agreement, it would be an event of default if Mr. Yeung Chung Lung, the controlling shareholder of the Company as defined in the Listing Rules, ceases to be the single largest and controlling shareholder of the Company.

As at 30 June 2006, the outstanding amount owed by the Company in respect of this loan facility was approximately HK$18,000,000 (equivalent to approximately RMB18,540,000).

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules") except the following major deviation:

Code Provision A.4.1

This code stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

All independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Bye-laws of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had compiled with the required standards as set out in the Model Code during the six months ended 30 June 2006.

REMUNERATION COMMITTEE

The Board of the Company has established a remuneration committee. The remuneration committee (comprising executive director Mr. Yeung Chung Lung, and independent non-executive directors Mr. Tsui Chun Chung, Arthur (chairman) and Mr. Leung Chiu Shing) is responsible to advise the Board on the remuneration policy and framework of the Company's directors and senior management, as well as review and determine the remuneration of all executive directors and senior management with reference to the Company's objectives from time to time.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the Company, namely, Mr. Tsui Chun Chung, Arthur (chairman), Mr. Lu Ze Jian and Mr. Leung Chiu Shing. The audit committee is responsible to review the Company's accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters with the management. The unaudited interim financial statements of the Company for the six months ended 30 June 2006 have been reviewed by the audit committee.

APPRECIATION

I would like to thank the Board, management and all our staff for their hard work and dedication, as well as our shareholders and customers for their support to the Group.

On behalf of the Board
Yeung Chung Lung
Chairman

Hong Kong, 25 September 2006