FIRST NATURAL FOODS
HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

stock code: 1076

2007
INTERIM REPORT

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 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Note	**2007 RMB'000 (Unaudited)**	2006 RMB'000 (Unaudited)
Turnover	3	**386,415**	260,292
Cost of sales		**(208,773)**	(139,632)
Gross profit		**177,642**	120,660
Other revenue	3	**7,829**	2,159
Distribution costs		**(1,991)**	(813)
General and administrative expenses		**(16,024)**	(19,689)
Other operating expenses		**(20,073)**	(2,235)
Profit from operations		**147,383**	100,082
Finance costs	5(a)	**(16,783)**	(4,100)
Profit before taxation	5	**130,600**	95,982
Income tax	6(a)	**(39,040)**	(25,965)
Profit attributable to equity holders of the Company		**91,560**	70,017
Dividends	7	**44,144**	14,362
Earnings per share			
— Basic	8(a)	**RMB9.15 cents**	RMB7.57 cents
— Diluted	8(b)	**RMB7.98 cents**	RMB7.14 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**239,421**	242,324
Leasehold land and rental prepayments		**51,280**	27,626
Deferred tax assets		**812**	812
		291,513	270,762
CURRENT ASSETS			
Leasehold land and rental prepayments		**19,426**	9,566
Inventories	10	**50,460**	26,768
Trade and other receivables	11	**276,281**	198,771
Time deposits with original maturities over three months		**5,879**	169,358
Cash and cash equivalents		**835,236**	673,797
		1,187,282	1,078,260
CURRENT LIABILITIES			
Trade and other payables	12	**17,979**	38,792
Interest-bearing borrowings		**137,579**	98,336
Provision for staff welfare benefit		**10,143**	12,988
Taxation payable	6(b)	**23,895**	13,223
		189,596	163,339
NET CURRENT ASSETS		**997,686**	914,921
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,289,199**	1,185,683
NON-CURRENT LIABILITIES			
Interest-bearing borrowings		**143,037**	196,370
Convertible notes	13	**69,666**	94,989
Financial liabilities at fair value through profit or loss	14	**94,394**	—
Deferred tax liabilities	6(c)	**2,231**	3,391
		309,328	294,750
NET ASSETS		**979,871**	890,933
CAPITAL AND RESERVES			
Share capital	15	**55,678**	51,750
Reserves	15	**924,193**	839,183
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**979,871**	890,933

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**102,606**	19,710
Net cash generated from/(used in) investing activities	**118,348**	(13,057)
Net cash (used in)/generated from financing activities	**(52,399)**	10,888
Increase in cash and cash equivalents	**168,555**	17,541
Cash and cash equivalents at 1 January	**673,797**	582,185
Effect of foreign exchange rate changes, net	**(7,116)**	(1,605)
Cash and cash equivalents at 30 June	**835,236**	598,121

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June 2007 (Unaudited)		For the six months ended 30 June 2006 (Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000
Total equity at 1 January		890,933		717,068
Profit for the period		91,560		70,017
Dividend approved during the period		(44,144)		(14,362)
Deferred tax effect on equity component		595		180
Conversion of convertible notes		25,408		—
Release of equity component upon conversion		(1,366)		—
Exchange adjustment		(4,500)		(1,422)
Movement in shareholders' equity arising from capital transactions				
— Shares issued	2,071		345	
— Net premium received	19,314		3,030	
— Equity settled share-based transactions	—		7,255	
		21,385		10,630
Total equity at 30 June		979,871		782,111

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These condensed consolidated financial statements have 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 condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements except for new standards amendments to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2007 as stated in note 2.

The preparation of the condensed consolidated financial statements is in conformity with HKAS 34 requiring 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.

The condensed consolidated financial statements contain 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 2006 annual financial statements. The condensed consolidated 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 2006 that is included in the condensed consolidated financial statements 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 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 April 2007.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006 except for the following new standards, amendments to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2007:

Amendment to HKAS 1	Capital Disclosure
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of amendments to HKAS 1 and HKFRS 7 and HK(IFRIC)-Int 7, 8, 9 and 10 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 2007 and have not been early adopted by the Group:

HKAS 23 (Revised)	Borrowing Cost[1]
HKFRS 8	Operating Segment[1]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.

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 of all these new standards, amendments to standards and interpretations would have on its results of operations and financial position.

3. TURNOVER AND OTHER REVENUE

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

Turnover represents the invoiced value of goods sold, less value-added tax, goods returns and trade discounts.

During the period, the Group had revenue and gains arising from the following activities:

	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Turnover	**386,415**	260,292
Interest income from banks	**7,523**	2,052
Subsidy income*	**150**	100
Sundry income	**156**	7
Other revenue	**7,829**	2,159
Total	**394,244**	262,451

* Subsidy income represents discretionary grants received from a local government authority of mainland China in respect of the development of agricultural products carried out by a subsidiary.

4. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. 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
Seasoned convenient food products	:	The manufacture and sales of seasoned convenient food products

	For the six months ended 30 June (unaudited)							
	Frozen marine food products		Frozen functional food products		Seasoned convenient food products		Consolidated	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Revenue from external customers	**163,189**	145,785	**210,560**	113,833	**12,666**	674	**386,415**	260,292
Segment result	**82,287**	69,746	**89,445**	50,574	**5,910**	340	**177,642**	120,660
Unallocated operating income and expenses							**(30,259)**	(20,578)
Profit from operations							**147,383**	100,082
Finance costs							**(16,783)**	(4,100)
Income tax							**(39,040)**	(25,965)
Profit attributable to equity holders of the Company							**91,560**	70,017

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)									
	Mainland China		Japan		United States of America		Others		Consolidated	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Revenue from external customers	**14,829**	9,328	**270,073**	161,739	**100,134**	86,179	**1,379**	3,046	**386,415**	260,292

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		For the six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(a)	Finance costs		
	Interest on borrowings wholly repayable within five years		
	— bank loans and overdraft	**12,475**	3,661
	— effective interest expenses on coupon bonds and convertible notes	**4,308**	439
		16,783	4,100
(b)	Other items		
	Cost of inventories#	**208,773**	139,632
	Staff costs (including directors' remuneration)#	**5,392**	11,840
	Depreciation of property, plant and equipment#	**12,997**	7,856
	Amortisation of leasehold land and rental prepayments	**9,046**	7,713
	Net exchange loss	**182**	98
	Operating lease charges in respect of land and buildings	**723**	607
	Write-down of obsolete and slow moving inventories	**—**	810
	Impairment loss of bad and doubtful debts	**—**	682
	Fair value loss on financial liabilities at fair value through profit or loss	**19,166**	—

\# Cost of inventories includes staff costs of approximately RMB2,762,000 (2006: approximately RMB2,213,000) and depreciation expenses of approximately RMB12,247,000 (2006: approximately RMB7,082,000) that have also been included in the respective total amounts disclosed separately above.

6. INCOME TAX

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

	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
Mainland China enterprise income tax	**39,496**	25,965
Deferred tax		
Reversal of temporary difference	**(456)**	—
	39,040	25,965

6. INCOME TAX (continued)

Note:

(i) Overseas income tax

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda. The Company's subsidiary established in the British Virgin Islands is exempted from British Virgin Islands income taxes.

(ii) 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 (2006:Nil).

(iii) Mainland China enterprise income tax

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

Hence, the mainland China enterprise income tax for the six months ended 30 June 2007 presented was at the rate of 24% (2006: 24%) on the estimated assessable profit.

(iv) Deferred taxation

No deferred tax assets has been recognized for the period ended 30 June 2007 as there has been no material temporary difference for tax purpose.

(b) Taxation in the condensed consolidated balance sheet represents:

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Mainland China enterprise income tax	**23,895**	13,223

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

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Balance brought forward	**3,391**	808
Credited to consolidated income statement	**(463)**	(273)
Deferred tax effect on equity component	**(613)**	(358)
Charge to equity for the year	**—**	3,214
Exchange difference	**(84)**	—
	2,231	3,391

7. DIVIDENDS

(a) The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Nil).

(b) Dividends attributable to the financial year ended 31 December 2006, approved and paid during the period:

	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final dividend paid HK$0.045 (equivalent to approximately RMB0.044) per ordinary share (2006: HK$0.015 equivalent to approximately RMB0.0155)	**44,144**	14,362

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the period ended 30 June 2007 is based on the profit attributable to shareholders of approximately RMB91,560,000 (2006: approximately RMB70,017,000) and the weighted average of 1,000,754,000 (2006: 925,142,000) 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 2007 is based on the profit attributable to shareholders of approximately RMB95,070,000 (2006: approximately RMB70,017,000) and the weighted average number of 1,190,784,000 (2006: 980,143,000) ordinary shares after adjusting for the effects of all dilutive ordinary potential shares.

(c) Reconciliations

	Number of shares	
	2007	2006
Weighted average number of ordinary shares used in calculating basic earnings per share	**1,000,754,000**	925,142,000
Deemed issue of ordinary shares		
— shares options	**9,008,000**	6,710,000
— warrants	**39,429,000**	48,291,000
— convertible notes	**141,593,000**	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,190,784,000**	980,143,000

9. ADDITION TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB9,544,000 (six months ended 30 June 2006: approximately RMB12,810,000) on the manufacturing plant and machinery in mainland China in order to enlarge its production capacities and approximately RMB551,000 (six months ended 30 June 2006: approximately RMB247,000) for the purchase of furniture and equipment, motor vehicles and construction in progress.

10. INVENTORIES

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Raw materials, at cost	**4,090**	1,396
Finished goods, at cost	**48,689**	27,691
	52,779	29,087
Less: Write-down of obsolete and slow moving inventories	**(2,319)**	(2,319)
	50,460	26,768

11. TRADE AND OTHER RECEIVABLES

The ageing analysis of trade receivables are as follows:

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Within 1 month	**71,737**	75,785
More than 1 month but within 3 months	**53,903**	68,727
More than 3 months but within 6 months	**—**	25
Trade receivables, net	**125,640**	144,537
Other receivables, deposits and prepayments	**150,641**	54,234
	276,281	198,771

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 balances that are more than 3 months are requested to settle all outstanding balance before any further credit is granted.

12. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables are as follows:

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Within 1 month or on demand	**484**	17,035
After 1 month but within 3 months	**965**	377
After 3 months but within 6 months	**59**	56
Total trade payables	**1,508**	17,468
Finance costs payables	**2,072**	3,157
Accruals and other payables	**5,337**	1,832
Other tax payables	**6,944**	13,500
Due to a director*	**2,118**	2,835
	17,979	38,792

* The amount due to Mr. Yeung Chung Lung, director of the Group is unsecured, non-interest bearing and has no fixed terms of repayment.

13. CONVERTIBLE NOTES

On 14 September 2006, the Company issued the convertible notes ("Notes") in an aggregate principal amount of HK$116,000,000 (equivalent to approximately RMB115,562,100 with 3% interest per annum and is payable on a semi-annual basis). Subject to certain adjustment, the Notes will be convertible into the conversion shares at the initial conversion price of HK$0.85 (equivalent to approximately RMB0.9) per share. Subsequently, the conversion price has been adjusted to HK$0.81 (equivalent to approximately RMB0.79), as a result of capital distribution paid for the financial year ended 31 December 2006.

Conversion may occur at any time between 14 September 2006 and 13 September 2011. If the Notes have not been converted, they will be redeemed on 14 September 2011 at HK$124,700,000 (equivalent to approximately RMB124,229,258). Interest of 3% per annum will be paid up until that settlement date.

The Notes contain two components, the liability and the equity components. The equity component is presented in the equity section heading "Equity Component Reserve". The effective interest rate of the liability component is approximately 9.2%.

During the period ended 30 June 2007, holders of the Notes exercised the conversion rights attached to the Notes to the extent of HK$31,000,000 (equivalent to approximately RMB30,076,200) of the principal amount outstanding at the conversion price of HK$0.81 (equivalent to approximately RMB0.79).

The movement of the liability component of the convertible notes is set out below:

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Proceeds from issuance of the convertible notes	**—**	111,794
Equity component (net of deferred tax)	**—**	(15,153)
Deferred tax liability	**—**	(3,214)
Liability component at date of issue	—	93,427
Balance brought forward	**94,989**	—
Issuance of convertible notes	**—**	93,427
Exchange difference	**(2,514)**	—
Conversion during the period	**(25,408)**	—
Interest charged	**4,308**	2,602
Interest paid	**(1,709)**	—
Interest payable	**—**	(1,040)
Balance carried forward	**69,666**	94,989

14. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Financial liabilities at fair value through profit or loss — interest rate swap contract	**94,394**	—

(a) The interest rate swap contract is measured at fair value at each balance sheet date. The fair value was determined based on the quoted market prices for equivalent instruments at the balance sheet date. The notional principal amount of the interest rate swap contract was US$100,000,000 (equivalent to approximately RMB753,000,000).

(b) The interest rate swap contract does not qualify for hedge accounting under HKAS 39 and designated as financial liabilities at fair value through profit or loss.

15. CAPITAL AND RESERVES

	Share Capital	Share premium	Merger reserve	Statutory reserve fund	Enterprise expansion reserve fund	Employee share-based compensation reserve	Equity component reserve	Exchange reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	**51,750**	**173,377**	**41,421**	**51,307**	**10,081**	**7,569**	**20,058**	**3,656**	**531,714**	**890,933**
Exercise of share option	**1,229**	**13,822**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**15,051**
Exercise of warrants	**842**	**5,492**	**—**	**—**	**—**	**—**	**(1,366)**	**—**	**—**	**4,968**
Conversion of convertible notes	**1,857**	**28,140**	**—**	**—**	**—**	**—**	**(4,589)**	**—**	**—**	**25,408**
Dividend approved in respect of previous year (note 7(b))	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(44,144)**	**(44,144)**
Deferred tax effect on equity component	**—**	**—**	**—**	**—**	**—**	**—**	**595**	**—**	**—**	**595**
Exchange adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,500)**	**—**	**(4,500)**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**91,560**	**91,560**
At 30 June 2007	**55,678**	**220,831**	**41,421**	**51,307**	**10,081**	**7,569**	**14,698**	**(844)**	**579,130**	**979,871**
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 7(b))	—	—	—	—	—	—	—	—	(14,362)	(14,362)
Deferred tax effect on equity component	—	—	—	—	—	—	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

16. COMMITMENTS

(a) Capital commitments

As at the balance sheet date, the Group had the following commitments:

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Acquisition of property, plant and equipment		
— contracted for but not provided for	**108,675**	116,496
— authorised but not contracted for	**—**	100,500
	108,675	216,996

(b) Operating lease commitments

As at balance sheet date, the Group had the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	At 30 June 2007 RMB'000 (Unaudited)	At 31 December 2006 RMB'000 (Audited)
Within 1 year	**16,796**	16,686
After 1 year but within 5 years	**59,359**	61,783
After 5 years	**68,940**	123,680
	145,095	202,149

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to twenty years. None of the leases includes contingent rentals.

17. WARRANTS

The Company issued the coupon bonds with detachable warrants attached. The holders of the warrants (the "Warrantholders") may 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.

(a) Movement in warrants:

	Number of warrants	
	At 30 June 2007	At 31 December 2006
Balance brought forward	**470**	710
Exercised during the period/year	**(131)**	(240)
Balance carried forward	**339**	470

(b) Terms of unexpired and unexercised warrants at balance sheet date:

		Number of warrants	
Date of grant	**Exercisable period**	**At 30 June 2007**	At 31 December 2006
10 April 2003	10 April 2003 to 9 April 2008	**339**	470

18. CONTINGENT LIABILITIES

The Company gave an undertaking in respect of bank loan facilities extended to a subsidiary of approximately amounting to RMB34,500,000 (2006: approximately RMB41,500,000).

The carrying amount of the financial guarantee contract recognized in the Company's balance sheet in accordance with HKSA 39 and HKFRS 4 (Amendments) was approximately RMB17,000 (2006: approximately RMB17,000). The financial guarantee contract was eliminated on consolidation.

19. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) The Company purchased and cancelled 3,300,000 shares of HK$0.05 (equivalent to approximately RMB0.049) each in the capital of the Company in the months of July and August 2007 at prices ranging from HK$1.02 (equivalent to approximately RMB0.99) to HK$1.17 (equivalent to approximately RMB1.14) per share on the Stock Exchange of Hong Kong Limited. Such purchases involved a total cash outlay HK$3,676,000 (equivalent to approximately RMB3,566,455) and were for the purpose of enhancing the Company's return on equity.

(b) On 21 August 2007, the Company obtained a new three-year unsecured loan facility of HK$20,000,000 (equivalent to approximately RMB19,404,000) from DBS Bank (China) Limited Guangzhou Branch. The loan was drawndown in August 2007 and bore interests at 2% over HIBOR per annum for the Group's general working capital.

(c) On 10 September and 18 September 2007, holders of the Notes exercised the conversion rights attached to the Notes to the extent of HK$25,000,000 (equivalent to approximately RMB24,255,000) of the principal amount outstanding at the conversion price of HK$0.81 (equivalent to approximately RMB0.79) in accordance with terms and conditions contained in the subscription agreement dated 11 August 2006. Subsequently, the nominal amount of the outstanding Notes became to HK$60,000,000 (equivalent to approximately RMB58,212,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2007, the Group recorded turnover and gross profit of approximately RMB386,415,000 (2006: approximately RMB260,292,000) and approximately RMB177,642,000 (2006: approximately RMB120,660,000) respectively. Profit attributable to shareholders reached approximately RMB91,560,000 (2006: approximately RMB70,017,000). During the first half of 2007, the export market of the Chinese-made products was affected by the recent back-to-back recalls from overseas authorities. Such incidents sparked the concern in quality control of the PRC manufacturers. It is criticized the PRC manufacturers cut corners by using sub-standard ingredients in their production, leading overseas customers lack of confidence on the Chinese-made products. However, the Group's businesses were not affected and the sales orders for the value products further increased. The key reason was the Group put food safety at overriding importance. It resulted in the Group's trustworthiness which benefited continuous growth in its export and even a stronger bargaining power on the Group's selling price. The Group's overall turnover increased by approximately 48% as compared with the corresponding period of last year. The gross profit and profit attributable to shareholders also surged by approximately 47% and approximately 31% respectively as compared with the corresponding period in 2006. The production cost remained relatively stable.

Industry Overview

During the first half of 2007, the export market of the PRC marine products was increasingly challenging because of the stringent of environmental and technical ramparts from overseas authority.

Amidst the alarms on the food safety, the PRC government has looked into the root of the problem. Firstly, the endorsement from the Chinese Inspection Quarantine represents the food products passing the international standard entirely. Secondly, for administrative procedure, the PRC government revamped the registration system on qualified exporter of agricultural produce. The Group also accredited as the model exporter of agricultural product processing industry in the PRC.

Statistics showed the growth of export eel products in Fujian Province reached 18,000 tons in terms of volume, and amounted to US$204,000,000, despite the recalls to tainted seafood happened in the US.

Business Review

(1) *Frozen Marine Food Products*

During the period under review, turnover generated from frozen marine food products was approximately RMB163,189,000 (2006: approximately RMB145,785,000), accounted for approximately 42% of the Group's total turnover (2006: approximately 56%), representing an increase of approximately 12% as compared with the corresponding period in 2006. Continuous improvements in product output, incremental pricing and consistent rise in market demand led to the surge of sales orders. In addition, international renowned customers have full confidence on the Group's superior quality which gave the Group a stronger bargaining power. Technically, the Group enforced the stringent quality control on its production. Besides, the Group's leased farm base can supply abundant raw materials and its competitive purchasing price had offset the cost pressure.

As an innovative food processor, the Group also rolled out North Pacific squid series. Given its specialty, the Group believed that these kinds of products are uncontested with immense market demand.

(2) *Seasoned Convenient Food Products*

During the period under review, turnover generated from seasoned convenient food products was approximately RMB12,666,000 (2006: approximately RMB674,000), accounted for approximately 3% of the Group's total turnover. The Group's tuna products have been successfully delivering to overseas markets since Kosher Certification was issued to the Group in April 2007. Served with high nutrition value and diversed recipes on dishes, tuna products are best ordered by the international customers. During the period under review, the sales volume of the Group's tuna and rice products were approximately 300 tons and 230 tons respectively.

(3) ***Frozen Functional Food Products***

Turnover generated from frozen functional food products was approximately RMB210,560,000 (2006: approximately RMB113,833,000), accounted for approximately 55% of the Group's total turnover (2006: approximately 44%), representing an increase of approximately 85% as compared with the corresponding period in 2006. Sea-eel business played a significant part of the Group's overall turnover. First, the Group's sea-eel farm is located in Jiangyin village, Fujian Province, where is a natural bay with strong tidal water movements and better water quality, eels can grow shortly and healthily. It benefits the Group to secure the stable supply of quality sea-eels. Besides, the Group has stringent quality control in place to ensure breeding, transportation and processing procedures are properly enforced. In respect of the technology innovation and R&D enhancement, the Group has applied ultraviolet sterilization packaging technique and aseptic-roasted technique, which are comparable to international standard.

During the period under review, turnover of sea-eel products was approximately RMB32,000,000, which accounted approximately 8% of the Group's total sales, and its sales volume surged to approximately 280 tons, almost accomplishing the full-year sales of 300 tons. With the positive intentions from its Japanese customers, the Group is optimistic about the robust sales of sea-eel products will be sustaining in the second half of the year. In addition, turnover of flying fish roes rose to approximately RMB51,000,000, which accounted approximately 13% of the Group's total sales, and its sales volume reached approximately 440 tons. The increase of the flavor mix of flying fish roes and its different packaging size catered the market demand and satisfied the customers' needs.

Quality Assurance

The Group is committed to raise food quality and safety controls at all times. For this purpose, the Group has been stepping up the quality control on raw materials and the inspection of finished products unrelentingly. For example, the Japanese authority imposed "Positive List System" on the PRC's eel product export and the Group was able to meet such stringent requirements well before the policy promulgation. It is always necessary to keep abreast of the latest food hygienic technology, therefore the Group has maintained a good communication channel with the overseas customers, which it enables the Group to collect the information on foreign trading policies, legislations and inspection standards beforehand. The Group also implements a stricter inspection policy on raw materials and finished products in order to guarantee its food safety and expand its market shares.

Cost Control

During the period under review, the Group carried out cost management to sustain the profitability and alleviate the impact from price fluctuation in raw materials. Operational measures included having more purchasing points established in certain fishing harbours and piers so that bulky purchases of raw materials and storage could be handled efficiently during the fishing peak season. The Group also continually improves the fundamental facilities in production plants and enhances the efficiency of the operation. For the high-temperature seasoned convenient food production lines, the Group adjusted certain indicative parameters to lower the energy consumption during the production.

"UBI" Retail Shop

The Group inaugurated its first "UBI" retail shop in Pudong, Shanghai on 19 May 2007. The retail shop is situated at Yingchun Road, Pudong District, in the proximity to high-class residential area. It is approximately 200 square meters where offers tidy and cozy environment. Healthy, safe, hygienic and convenient foods are available in the shop. During the period under review, the Group carried out the marketing and products promotion activities regularly, such as culinary competition and product tasting to the customers. Through these types of popular activities, the Group's products and brand name are well recognized by the general public.

PROSPECTS

The Group acknowledges the continuous improvements in food quality standard as a cornerstone of its market competitiveness. Given the following value-adding strategies, the Group proactively monitors the progress of these developments in order to articulate the Group's future business.

(1) Imminent Workshop in Fuqing

The new modern workshop in Fuqing will commence its operation in the last quarter of this year. The new workshop has state-of-the-art production lines and supporting equipment together with production techniques and environment keeping the Group ahead among the local and international peers. With total investment over RMB150,000,000, the new workshop consists of three production sections, including one high-temperature seasoned convenient foods and two frozen marine food products. Under normal circumstances, the production capacity of high-temperature seasoned convenient foods is expected to be doubled in comparison with 2006, while that of the frozen marine food products will be increased by approximately 5,000 tons. The enlarged production capacity enables the Group's capability to satisfy the rapid-growing market demand.

(2) High-temperature Seasoned Convenient Food Production Lines

For the expansion in high-temperature seasoned convenient foods, the Group has already installed two new automated food processing production lines. This results in the increase of the total production capacity of the high-temperature seasoned convenient foods by approximately 3,000 tons. To enhance the varieties of high temperature seasoned convenient food products, the Group plans to produce high-temperature soup products and export to the US market. Amidst, the Group is devoted to enhancing product categories and market development with its cooperative counterparty.

(3) Rice Crop Farm Base

The Group's leased rice crop farm base in Heilongjiang province had completed the fundamental facilities and the Group subleased to local experienced farmers. It is expected that the supply volume of organic rice crop will reach 1,000 tons by the end of this year. The leased farm allows the Group to control the quality of raw materials effectively and easily passes the hurdle of the US import standard.

(4) Fishery Processing Plant

During the period under review, the Group had accomplished the capital injection to a wholly-owned subsidiary, namely Ningbo Dingwei Food Development Co., Ltd.. The construction of integrated fishery processing plant and related environmentally conservation facilities are underway with close supervision by the Group.

(5) More "UBI" Retail Shops

With the inauguration of the Group's first "UBI" retail shop, the popularity of the Group's own brand is growing further. In line with the expanding market scale, the Group is currently arranging to set up the second and third "UBI" retail shops in Pudong, Shanghai where the floor area of each shop is about 100 square meters. Retail shops remain focusing on upscale customers. To expedite product innovation, the Group not only develops its own products, but also sources the premier food products from outsides and then pack with "UBI" label. The Group has access latest market intelligence through the responses from customers which enables the Group's product development to cope with market needs. It is highlighted that the Group's new South Pole green algae series are going to launch to the market in the second half of the year.

(6) More profit momentum

During the first quarter of 2007, the canned tuna imported to Japanese market rose by 15% in terms of volume and import value amount as compared with the corresponding period of last year. It recorded the import volume of 7,710 tons and amounted to US$28,600,000, representing a year-on-year growing trend. Leveraging on the advanced production techniques and the economics of scale, the Group's tuna products are well-prepared to enter Japan. The Group intended to promote its tuna products to the Japanese market via Azuma Shoji Co Ltd., in the second half of 2007. Meanwhile, the Group will develop certain new products specifically for the Japanese market. Certainly, it will boost the sales volume of tuna products and expect to deliver approximately 250 tons in the second half of the year.

The consumption of high-temperature canned soup products in the US market is over 10,000 tons per annum, in particular the clam soup. Orbit Brands LLC technically supports the Group for the development of high-temperature canned soup products, such as microwave mixed clam soup and corn pottage. Based on the Group's advanced shellfish processing techniques, the abundant shellfish resources along Fujian coastal region and its production strengths, the Group has every reason to confirm the viability on the launch of high-temperature canned soup products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2007, the Group's total borrowings were approximately RMB350,282,000 (2006: approximately RMB389,695,000). The balance comprised two 3-year term loans, revolving term loans and a convertible note. The aggregate outstanding balance of two 3-year term loans was approximately RMB199,154,000 (2006: approximately RMB196,370,000). They are subject to floating rates on 1.25% and 2% over 3-month HIBOR rate respectively. The total outstanding balance of revolving term loans amounted to approximately RMB81,462,000 (2006: approximately RMB98,336,000). The revolving term loans from a PRC bank were charged at a fixed rate of 5.85% per annum while other term loans were charged at 2.75% over 1-month HIBOR rate and 1.75% over 3-month LIBOR respectively.

The Group had issued convertible notes in respect of the principal amount of HK$116,000,000 with 3% coupon rate per annum and is payable on a half-yearly basis. The tenor of convertible note has 5 years. During the period ended 30 June 2007, holders of the Notes exercised the conversion rights attached to the Notes to the extent of HK$31,000,000 (approximately RMB30,076,200) of the principal amount outstanding at the conversion price of HK$0.81 (approximately RMB0.79). As at 30 June 2007, the convertible notes was stated approximately RMB69,666,000 as outstanding liability. The latest conversion price was adjusted to HK$0.81 (approximately RMB0.79) per share which is subject to adjustments contained in the subscription agreement, if necessary.

The Group had a structured financial instrument with the notional principal amount of US$100,000,000 (approximately RMB753,000,000). Its tenor has 5 years. Coupon payment is semi-annually. The first coupon rate is fixed at 2% and thereafter the subsequent coupon rate are floating based on Deutsche Bank Pan-Asian Forward Rate Bias Index (AFRB Index). Nonetheless, the Group has capped at 5% and floored at 0% for floating rate coupon payments. As at 30 June 2007, the fair value of the structured financial instrument was RMB94,394,000.

The Group had completely redeemed the coupon bonds. Detachable warrants issued under the same coupon bonds subscription agreement dated 28 March 2003 were scheduled to be due on 9 April 2008. As at 30 June 2007, the number of outstanding warrants were 339 and its adjusted exercise price was HK$0.28 (approximately RMB0.27) which is subject to adjustments contained in the above mentioned subscription agreement, if necessary.

As at 30 June 2007, the Group has a gearing ratio of 24% (2006: 29%). 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	39%
After 1 year but within 5 years	61%

TREASURY POLICY

As at 30 June 2007, the Group had cash and cash equivalents of approximately RMB835,236,000 (2006: approximately RMB673,797,000). The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong. The purposes of the Group's cash management are giving more flexibility to meet its working capital requirements and funding its capital expenditures.

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, the Group had approximately 670 employees (2006: approximately 650 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-owned subsidiary are vested in the Group's contribution to the state sponsored retirement plan.

During the period under review, the total staff costs of the Group were approximately RMB5,392,000 (2006: approximately RMB11,840,000).

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.

During the period under review, the Group had not granted any share options to directors and employees of the Company under the share option scheme of the Company adopted on 4 June 2004 (the "2004 Scheme"). Pursuant to a resolution passed at the annual general meeting of the Company held on 11 June 2007, a refreshment of the mandate limit under the 2004 Scheme was approved.

As at 30 June 2007, the Company has already granted 70,500,000 (2006: 70,500,000) share options to the directors and employees under the 2004 Scheme. Totaling 25,328,000 share options were exercised during the period of review.

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

For the six months period ended 30 June, 2007 the Group conducted its business transactions principally in US dollars and Renminbi (RMB). The Group did not experience any material difficulties or negative effects on its operations as a result of fluctuations in currency exchange rates. Due to the ensuing the appreciation of RMB, the Group will monitor the foreign exchange exposure and will 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 2007, in respect of assets acquisition, the Group had the transactions of contracted for but not provided for and authorized but not contracted for which are described in note 16 to the financial statements.

CHARGES ON ASSETS

As at 30 June 2007, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2007, the Group had contingent liabilities which are described in note 18 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2007, 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

	Number of ordinary shares				Approximately percentage of
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**issued share capital**
Yeung Chung Lung	—	—	382,175,000 *(Note)*	382,175,000	36.79%

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 2007
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	202,000
	28/04/2006	0.690	28/04/2006–27/04/2016	1,000,000
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 2007, 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	382,175,000	36.79%
Value Partners Limited *(Note 2)*	Investment manager	57,675,000	6.07%
Cheah Cheng Hye *(Note 2)*	Beneficial owner	1,100,000	
	Interest of child/spouse	300,000	
	Corporation	64,110,000	
		65,510,000	6.99%
The SFP Value Realization Co. Ltd. *(Note 3)*	Investment manager	71,585,000	7.13%
The SFP Asia Master Fund Ltd. *(Note 4)*	Beneficial owner	71,585,000	7.13%
The SFP Asia Fund Ltd. *(Notes 3 & 4)*	Corporation	71,585,000	7.13%
The SFP Asia Fund L.P. *(Notes 3 & 4)*	Corporation	48,945,000	5.29%
UBS AG	Person having a security interest in shares	56,090,000	5.63%

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 35.67% by Mr. Cheah Cheng Hye.

(3) The SFP Asia Fund Ltd. and The SFP Asia Fund L.P. are wholly-owned by The SFP Value Realization Co. Ltd.

(4) The SFP Asia Fund Ltd. and The SFP Asia Fund L.P. whom are interested in The SFP Asia Master Fund Ltd of 75.6% and 24.4% respectively.

Long positions in underlying shares of the Company

Name	Category of underlying shares	Number of ordinary shares
DKR Capital Inc.	Unlisted derivatives — cash settled	109,180,588
DKR Capital Partners LP	Unlisted derivatives — cash settled	109,180,588
DKR Management Co. Inc.	Unlisted derivatives — cash settled	109,180,588
DKR Oasis Management Company LP	Unlisted derivatives — cash settled	109,180,588
DKR SoundShore Oasis Holding Fund Ltd	Unlisted derivatives — cash settled	109,180,588
Oasis Management Holdings LLC	Unlisted derivatives — cash settled	109,180,588

Notes:

DKR Oasis Management Company LP is controlled as to 49% by Oasis Management Holdings LLC and as to 51% by DKR Capital Partners LP which is controlled as to 50% by DKR Management Co. Inc. DKR Management Co. Inc. is controlled as to 100% by DKR Capital Inc.

DKR Capital Inc., DKR Management Co. Inc., DKR Capital Partners LP, DKR Oasis Management Company LP, Oasis Management Holdings LLC and DKR SoundShore Oasis Holding Fund Ltd have total interests in 109,180,588 underlying shares.

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 "Scheme") has been adopted by the Company, the principal terms of which were set out in the Company's Annual Report 2006.

As at 30 June 2007, particulars of the options granted to the participants under the Scheme were as follows:

	Number of Shares in respect of Options							
Name or Category of participant	Balance as at 1 January 2007	Granted during the period	Exercised during the period	Outstanding as at 30 June 2007 *(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	1.32
	5,000,000	—	(5,000,000)	—	28/04/2006	28/04/2006–27/04/2016	0.690	1.32
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	5,000,000	—	—	5,000,000	28/04/2006	28/04/2006–27/04/2016	0.690	—
Yip Tze Wai, Albert	930,000	—	(728,000)	202,000	23/07/2004	23/07/2004–22/07/2014	0.489	0.89
	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	0.93
Leung Chiu Shing	500,000	—	—	500,000	28/04/2006	28/04/2006–27/04/2016	0.690	—
Employees:								
In aggregate	4,200,000	—	(4,200,000)	—	23/07/2004	23/07/2004–22/07/2014	0.489	0.915
	15,700,000	—	(10,900,000)	4,800,000	27/04/2006	27/04/2006–26/04/2016	0.662	0.919
	1,000,000	—	(1,000,000)	—	28/04/2006	28/04/2006–27/04/2016	0.690	0.890
Total	43,830,000	—	(25,328,000)	18,502,000				

Notes:

1. *No options have been granted, cancelled or lapsed during the six months period ended 30 June 2007.*

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 25,328,000 options were exercised at exercise prices ranged from HK$0.489 to HK$0.690 (equivalent to approximately RMB0.483 to RMB0.681) during the six months period ended 30 June 2007, the weighted average closing price of the share immediately before the dates on which the options were exercised was approximately HK$1.043 (equivalent to approximately RMB1.03).*

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months period ended 30 June 2007, 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

On 21 July 2006, the Company had entered into a loan agreement (the "Loan Agreement") with a syndicate of banks relating to a 3-year term loan facility of up to HK$195,000,000. Under the Loan Agreement, it would be an event of default if (i) Mr. Yeung Chung Lung and his family members cease to be the beneficial owner of at least 35% of the entire issued share capital and ownership interest of the Company; or (ii) Mr. Yeung Chung Lung ceases to be the chairman of the Company and to be the single largest shareholder of the Company or no longer actively involved in the management and business of the Group (being the Company, the guarantors and their respective subsidiaries); or (iii) the Company fails at any time to beneficially own (directly or indirectly) the entire issued share capital of any of the guarantors.

As at 30 June 2007, the outstanding amount owed by the Company in respect of this loan facility was approximately HK$189,362,000 (approximately RMB183,719,000).

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 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 (the "Model Code") 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. 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 period ended 30 June 2007.

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 for reviewing the Company's accounting principles and practices adopted by the Group and discussing auditing, internal control and financial reporting matters with the management. The unaudited interim financial statements of the Company for the six months period ended 30 June 2007 have been reviewed by the audit committee of the Company.

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, 20 September 2007