FIRST NATURAL FOODS
HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

stock code: 1076

Annual Report 2007

CONTENTS

FIRST NATURAL FOODS HOLDINGS LIMITED | **2007 Annual Report**

Corporate Information

Board of Directors

Executive Directors

Yeung Chung Lung *(Chairman)*
Yang Le *(Chief Executive Officer)*
Ni Chao Peng
Yip Tze Wai, Albert

Independent Non-executive Directors

Wong Chi Keung
Lu Ze Jian
Leung Chiu Shing

Company Secretary

Li Chi Fai

Legal Advisor for Bermuda Law

Conyers Dill & Pearman

Auditors

CCIF CPA Limited

Principal Bankers

Citic Ka Wah Bank Limited
China Construction Bank (Asia) Limited
DBS Bank Ltd, Guangzhou Branch
Xiamen International Bank
Taishin International Bank Co., Limited, Hong Kong Branch

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Suites 2202–3
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

Bermuda Principal Share Registrar and Transfer Office

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Hong Kong Registrars Limited
Shops 1712–1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Investor Relations Consultant

Quam IR
Room 1008, 10/F
Man Yee Building
68 Des Voeux Road
Central
Hong Kong

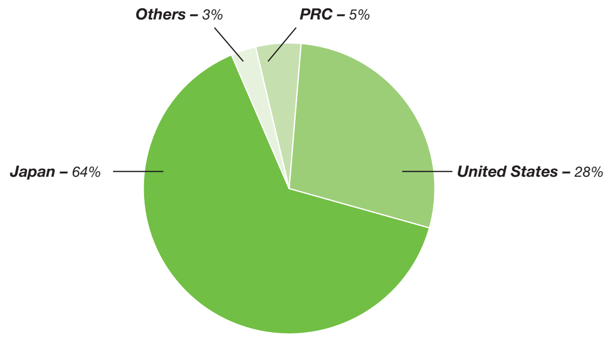
Trading Code on The Stock Exchange of Hong Kong Limited

1076

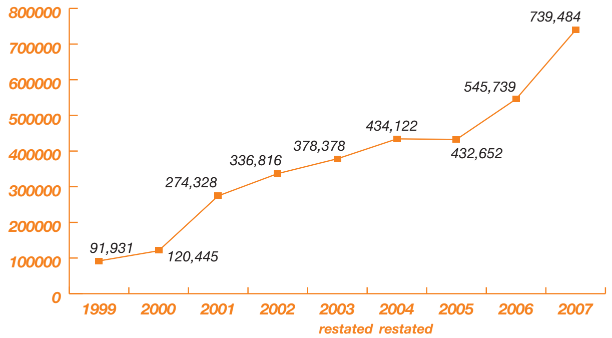
Company's website

www.firstfoods.com.hk

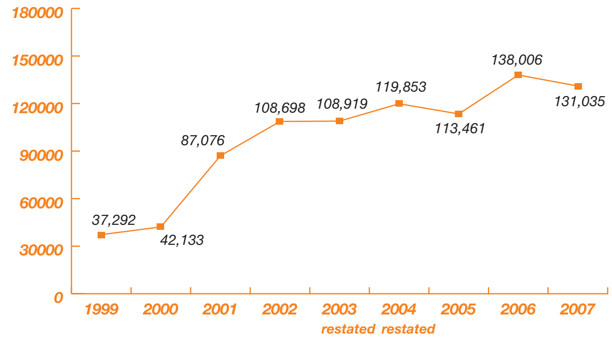
Turnover Breakdown by Countries



Turnover
(RMB'000)



Net Profit
(RMB'000)



	2007	2006
	RMB'000	RMB'000
Turnover	**739,484**	545,739
Gross profit	**334,215**	248,527
Profit attributable to shareholders	**131,035**	138,006
Basic earnings per share	**RMB12.6 cents**	RMB14.8 cents
Capital expenditure incurred	**201,923**	108,126
Account receivables turnover (days)	**66**	97
Inventory turnover (days)	**30**	33
Annual production volume (tonnes)	**16,988**	13,968

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of First Natural Foods Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

In the past year, the unprecedented of environmental and technical ramparts from the United States, European Union and Japan towards the PRC's products export, worse still the recalls from overseas authorities on Chinese-made products. Consumers have raised an ever-increasing concern on food safety. The State Administration for Inspection and Quarantine of the PRC has stepping up the inspection measures and inevitably affected the standards of food processors. Leveraging on a wealth of experience in frozen natural food processing industry, the Group also regularly exchanged technical updated on the food safety with major customers in their market. As a result, the Group not only benefited the control in higher standard of techniques but also achieved remarkable results during the year.

SUMMARY OF RESULTS

For the year ended 31 December 2007, turnover of the Group was approximately RMB739,484,000 (2006: approximately RMB545,739,000), representing an increase of approximately 36% as compared to last year. The Group's profit attributable to shareholders for the year was approximately RMB131,035,000 (2006: approximately RMB138,006,000), representing a slightly drop of approximately 5% year-on-year. The basic earnings per share was approximately RMB0.126 (2006: approximately RMB0.148).

DIVIDENDS

The Board resolved to recommend a final dividend of HK$0.040 per share (approximately equivalent to RMB0.036) (2006: HK$0.045 (approximately equivalent to RMB0.044 per share) for the year ended 31 December 2007. The dividend payout ratio for 2007 was approximately 32% (2006: approximately 32%).

BUSINESS REVIEW

The Group's businesses were in steady growth during the year. In line with the Group's development, the brand new integrated processing workshop in Fuqing has commenced its production during the year. The Group installed two new automated food processing production lines and upgraded the fundamental facilities so as to pave the way to expand our market share. During the year, the Group recorded a satisfactory sales turnover. It resulted from the customers' trustworthiness and better recognition towards the Group's novelty products such as sea-eel products, South Pole algae and North Pacific squid series.

Focusing on product quality and safety, the Group was not only accredited as the excellence on exporting of agricultural product processing industry in the PRC, but was also accredited with "Grade A Exporter", issued by Fujian Entry-exit Inspection and Quarantine Bureau of the PRC. It represented the Group's products are subject to minimal sampling sizes and reducing its inspection costs.

During the year under review, the Group strived to tap into the promising PRC market and opened two "UBI" retail shops in Shanghai. The Group is satisfied with the success brand image building among the mid-to-high end customer base. In respect of sales and marketing, the Group is devoted to diversify the customer base and enlarge its market coverage. For examples, certain types of the Group's tuna fish products were accredited the Kosher Certification in earlier 2007 and delivered to North American market, the Group's flying fish roes entered into the Russian successfully through the cultural exchange events.

The "Labor Contract Law" revised the protection of labor rights and welfare in Mainland China. However, the policy does not significantly affected the Group. In this respect, the Group premeditated the effect of changes of labor forces to the influence of its operation, therefore a professional human resources consultant was hired to tailor-made appropriate measures on its labor policy, environmental and safety regulations. The Group has adhered to the regulations on management to secure low labor turnover and control cost of labor effectively.

PROSPECTS

In 2008, the Group plans to expedite the pace of business development and devotes the efforts to expand the PRC's sales network. The Group will continue to apply speciality food retail model and launch more "UBI" retail shops to secure a higher market share. The Group also continuously enhances the brand promotion to facilitate "UBI" to become one of the most popular food brand in the PRC. Furthermore, the Group procures the food distributors or wholesalers to expand the channels in the market.

The Group's brand new integrated processing workshop in Fuqing has commenced its production since 2007. The undeveloped land at the existing plant premises will soon be utilized. It is expected that the supply of organic rice from the Group's leased organic rice crop base will start in April 2008 in order to guarantee the growing production demands of convenient rice products. More high-temperature seasoned convenient food production lines will also be rolled out in the first half year, therefore, it will further be strengthening the Group's strong market position.

During the year, the Group kept communication with institutional investors in the ways of organizing the plant visit, one-on-one meeting with the executives and participating the roadshow events. These activities are not only enhancing the Groups' transparency to the investors but also enabling the Group to receive valuable opinions from investors. It positively drives a common long-term interest with our shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to extend my heartfelt thanks to the Board, all our customers, suppliers, business partners and shareholders for their continued support for the Group. I also wish to express my sincere gratitude to all our staff of the Group for their contribution.

By Order of the Board
Yeung Chung Lung
Chairman

Hong Kong, 22 April 2008

'On The Move'

FINANCIAL REVIEW

For the year ended 31 December 2007, the Group recorded turnover and gross profit of approximately RMB739,484,000 (2006: approximately RMB545,739,000) and approximately RMB334,215,000 (2006: approximately RMB248,527,000) respectively. Profit attributable to shareholders was approximately RMB131,035,000 (2006: approximately RMB138,006,000). The export market of the PRC's marine food was ever-changing in 2007. The persistent increase on the challenges from overseas authority on food safety resulted in the concern of quality control for the PRC food exporters. Perpetually, the Group is dedicated to put food safety at overriding importance which allows the Group to secure the trustworthiness from its customers and continuing the growth in its export. The Group's total turnover represented an increase of 36% as compared to 2006, while gross profit surged approximately 34%. Profit attributable to shareholders slightly dropped by approximately 5% as compared to last year.

BUSINESS REVIEW

Industry Overview

Being a frozen natural food processor with strong competitiveness, the Group endeavors to provide quality and safety foods to customers, and focuses on product innovation. The management, production, environmental protection, safety and quality control of the Group have reached world-class standard. In December 2007, the Group was presented for the inspection by Special Campaign for Rectification of Product Quality and Food Safety held by the State Council of the PRC, and accredited with "Grade A exporter". Leveraging on the Group's excellent track record, the Group enjoys priority to be inspected its products and achieved the supervision credit of inspection quarantine, issued by Fujian Entry-exit Inspection and Quarantine Bureau of the PRC. During the year under review, the Group recorded a strong upbeat with export volume of approximately 17,000 tons, representing an increase of 25% year-on-year, as well as reaching its record high.

Management Discussion and Analysis

In the first 11 months of 2007, the export volume of the PRC's marine food continued to grow, the total production volume (export volume) added 4.5% to 4,538 tons, and the export amount increased 3.97% to US$8,724,000,000 as compared to last year. Japan remained the largest export market of the PRC's marine food products, which accounted for 30.47% of the total export volume in the PRC and reached US$2,658,000,000. The US, European Union and Korea are also the respective major export markets of the PRC's marine food products, which accounted for 17.63%, 16.32% and 11.48% of the total export volume in the PRC with the export amount of US$1,538,000,000, US$1,424,000,000 and US$1,002,000,000 respectively.

Frozen fish fillets, shellfish products and roasted eels are the PRC's major marine food products for export, in which the shellfish products and roasted eels are respectively the second and third largest categories that accounted for 23.95% and 22.08% of total export amount in the PRC, and amounted to a total of US$531,000,000. During the year under review, the export eel products in Fujian Province reached 27,000 tons in terms of volume, and amounted to US$320,000,000.

Business Analysis

(1) Frozen Marine Food Products

During the year under review, turnover generated from frozen marine food products was approximately RMB327,333,000 (2006: approximately RMB292,816,000), accounted for approximately 44% of the Group's total turnover (2006: approximately 54%), representing an increase of approximately 12% as compared to 2006. It benefited from the Group's superior quality products, met market expectation but also gained the customers' long-term trustworthiness. It recorded the steadily growth of the sales of shellfish products. Secondly, the Group's leased farm base guaranteed stable costs of raw materials to meet its production. The Group expedited the bargaining process on selling prices, in respect of the relentless of exchange rate fluctuations.

During the year under review, the Group continued to increase the selling price on certain types of specialized shellfish products and believed that there have sustainable of price-fixing power. It resulted in a higher Group's turnover and a market share on upscale customers. Besides, abundant and reliable supply of North Pacific squid and its stable cost, the sales of the Group's North Pacific squid series products recorded approximately 600 tons. The Group is confident that North Pacific squid series will become one of the Group's future profit drivers.

(2) Frozen Functional Food Products

Turnover generated from frozen functional food products was approximately RMB375,816,000 (2006: approximately RMB236,180,000), accounted for approximately 51% of the Group's total turnover (2006: approximately 43%), representing a surge of approximately 59% as compared to 2006. During the year under review, the production lines were upgraded and the production output of roasted eels increased from 750 kg/hr to 900kg/hr. The continuous improvement on the flying fish roes products enables the Group to raise its selling prices. The cultural festivals in Russia has further promoted the Sino-Russian trading relationships and the Group poises to capture this significant opportunities to enter into the Russian market. As such, the sales of flying fish roes products recorded 100 tons additionally.

The tight quality controls on the roasted sea-eel production chain gain the recognitions from the consumers. The better-than expected results was showed in its turnover, which was approximately RMB66,131,000, accounted for approximately 9% of the Group's total turnover. The annual sales orders were already accomplished in the first half of the year 2007 but its sales orders continued to increase to approximately 300 tons in the second half year. The positive momentum of roasted sea-eel products also boosted the surge of the sales of traditional eel products.

(3) Seasoned Convenient Food Products

During the year under review, turnover generated from seasoned convenient food products was approximately RMB34,182,000 (2006: approximately RMB16,743,000), accounted for approximately 5% of the Group's total turnover (2006: approximately 3%), representing a significant increase of approximately 104% as compared to 2006. Four of the Group's tuna products successfully obtained Kosher Certification in earlier 2007. The growing popularity of tuna products in Japan and the US market are attributable to its superior quality and ready to serve with different recipes. The average monthly sales volume of tuna products in Japan and the US markets were 20 tons and 50 tons respectively, while the domestic market demand is also growing up.

(4) Retail Shops

During the year under review, turnover generated from retail shops was approximately RMB5,124,000 (2006: Nil).

"UBI" retail shops are selling varieties of healthy and convenient foods. This marketing strategy matches to the consumer's demand on healthy eating. The shops have regularly launched new products series in order to capture the customers' ever-changing taste. Different mixes of condiments were also available in the "UBI" retail shop in the second half of 2007 and the customers could use it to cook with our products for varieties of dishes. Moreover, the Group carried out the marketing and promotion activities periodically, culinary competition for the purpose of boosting the popularity of the Group's retail shop and its own brand in the local community.

Cost Control

The Group has persistently exerted cost controls. Firstly, it enables the Group to expand its scale of production and product sales; secondly, it enhances the Group's production volume in certain products with stronger price-fixing power. To sustain the profit margin, the Group not only from time to time upgrades the package to increase the selling prices of certain products but also improves the production techniques to enhance efficiency in all production stages. Technically, the Group has been working with Institute of Food Research, Fujian Agriculture and Forestry University. As a result, it has improved the processing techniques of high-temperature seasoned convenient food and reduced its production cost. Furthermore, it was often that the Group bargained a favorable selling price with the customers in respect of the relentless fluctuations on the exchange rate.

Quality Control

Food quality and safety are fundamentally important. Therefore the Group has been stepping up every measures of quality control from purchasing, production and to delivery. In addition, the Group's state-of-the-art laboratory centre has further assured its superior quality and safety control. Fujian Municipal government granted certain preferential policies, for examples offering subsidy and designated funds to support the Group's development.

New Labor Law

As earlier in 2006, the Group hired a professional human resources consultant to accustom itself to modern labor management. Nevertheless, certain number of the mainland China enterprises were beset by the recent enforcement of labor contract law which caused the increases to labor cost. For this reason, the Group has analyzed the length of services rendered by its employees and offering them fair rewards including of incentive and welfare nature. Such provisions arising from new labor law has not caused any financial burden to the Group. In addition, the Group was able to reach mutual benefits services agreement with its employee to share the results. These measures ensure the Group not only securing low labor turnover, enhancing the employees' loyalties and the formation of quality work forces, but also controlling its cost of labor effectively.

PROSPECTS

The Group has always maintained a prudent and optimistic attitude to continue its food processing business model. The Group not only significantly invests into the expansion of food processing facilities, but also devotes the effort to explore more business opportunities. Besides, the Group is securely poised to take on imminent challenges ahead.

(1) Workshop in Fuqing

The brand new modern workshop in Fuqing has commenced its operation in 2007 which has primarily used for the production of high-valued North Pacific squid series. Under normal circumstances, its production facilities will add the output of frozen marine food products by approximately 5,000 tons. In view of the undeveloped land outside of the existing plant premises, the Group plans to carry out certain pre-construction site work on this plot of land, including design, geologic exploration and site survey. This phase of pre-construction work is expected to be completed in first half of 2008.

(2) High-temperature Seasoned Convenient Food Production Lines

Two new automated food processing production lines have been installed in the new Fuqing workshop. Leveraging on shellfish processing savvy, the Group has developed high-temperature pouch clam soup. As a result, the Group has reached new sales orders between US Orbit Brands Inc. and Select Brands USA, LLC respectively.

(3) Rice Farm Base

In conjunction to the production of convenient rice meal pack, the supply of organic rice from the Group's leased rice crop base in Heilongjiang is expected to arrive in April 2008. Organic rice crop grow in a non-polluted environment and manure with organic fertilizer, free of chemical drugs. Given the superb quality raw materials, the Group's convenient rice products can easily access to the international markets. The Group targets a 30% increase in sales orders of convenient rice products in 2008.

(4) Fishery Processing Plant

The Group has already completed the basic foundation works for the integrated fishery processing plant in Xiangshan County of Ningbo, Zhejiang. However, the construction of this scalable processing plant has encountered certain technical problems, for examples the social responsibility on the environment protection and the hefty incidental cost incurred for other auxiliary facilities. In view of the cost of construction incurred, the Group has confirmed with the construction unit for the full recovery of prepaid construction cost and agreed to terminate the construction contract voluntarily without further recourse to the Group's commitment in the contract, if the project does not permit. These kind of arrangements limit the impact to the Group's financial position. Alternatively, the Group plans to look for other desirable workshop to continue the fishery paste production.

(5) Launch of "UBI" Retail Shops

The Group has two "UBI" retail shops in Shanghai and selling upscale food products in its speciality stores. The Group has been satisfied with a success brand image building among the mid-to-high end customer base. The Group plans to set up three to five "UBI" retail shops in Shanghai and also procures the food distributors or wholesalers to expanding the channels in the market. The Group also intends to engage a professional marketing intelligence to master the development trend of the food retail business and enhances its brand through media promotional activities. As such, "UBI" will sooner become one of the most popular food brands.

(6) Increase in Market Share

The Group's stronger R&D capability and the advanced production technology boost the competitiveness of high-end products. The Group also closely communicates with consumers and takes the initiative to develop new products to cope with their needs. For example, Maruha Company Limited merged with Nichiro Company Limited in October 2007 which resulted in itself to becoming the largest food distributor in Japan. Positively, the Group seized every opportunity to have a sales contract with Maruha Nichiro Company Limited and anticipate to boost its sales volume by 30% rise as compared to 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's total bank borrowings were approximately RMB266,976,000 (2006: approximately RMB294,706,000). The balances comprised 3-year term loans, revolving term loans and a convertible note. The aggregate outstanding balances of those 3-year term loans were approximately RMB207,872,000 (2006: approximately RMB205,426,000) which are subject to floating rates on 1.25% and 2% over 3-month HIBOR rate. The total outstanding balances of revolving term loans amounted to approximately RMB59,104,000 (2006: approximately RMB89,280,000). Revolving term loans of RMB45,604,000 from Hong Kong bankers were charged at 2.75% over 1 month HIBOR rate and 1.75% over 3-month LIBOR while revolving term loans of RMB13,500,000 from a PRC bank were charged at fixed rate at 6.57% and 7.29% per annum.

The Group had a convertible note (the "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 is 5 years. During the year under review, holders of the Notes exercised the conversion rights attached to the Notes to the extent of HK$85,000,000 of the principal amount outstanding at the conversion price of HK$0.81 per share which is subject to adjustments contained in the subscription agreement, if necessary. As at 31 December 2007, the outstanding amount of the convertible note was RMB24,273,000 (2006: RMB94,989,000).

The Company entered into an USD Interest Rate Swap with AFRB Index (the "Swap") with Deutsche Bank AG, Singapore Branch on 25 April 2007. The Swap has notional amount of USD100,000,000 and its tenor is 5 years. The Company received a fee in the amount of USD10,000,000. Coupon payment is calculated half-yearly. The Company will receive fixed payment in exchange with floating payment to Deutsche Bank on every half-year. Fixed payment sets at 8% per annum. For floating coupon payment, except for the first coupon payment is charged at 10%, is equated as 10%-5* (Index YoY Return – 1%) per annum. The index represents the Deutsche Bank Pan-Asian Forward Rate Bias Index ("AFRB" Index). Besides, the floating coupon payment is capped at 13% and is floored at 0%. As at 31 December 2007, the mark-to market value of the Swap was RMB116,590,000.

The Group had completely redeemed the coupon bonds. Detachable warrants issued under the same coupon bond subscription agreement dated 28 March 2003 were scheduled to be due on 9 April 2008. As at 31 December 2007, the number of outstanding warrants were 339 and its adjusted exercise price was HK$0.28 which is subject to adjustments contained in the above mentioned subscription agreement, if necessary.

As at 31 December 2007, the Group has a gearing ratio of approximately 19% (2006: approximately 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	55%
After 1 year but within 5 years	45%

The Group's total borrowings is the sum of bank borrowings and convertible note.

CAPITAL STRUCTURE

The Group proactively reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position and makes adjustments to the capital structure in the light of changes in economic conditions.

In this respect, the Group monitors its capital structure on a basis of a net debt-to-adjusted capital ratio. Net debts are defined as total debts including interest bearing borrowings, convertible notes and other financial liabilities, less cash and cash equivalent. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During the year under review, the Group's strategy was to maintain the net debt-to-adjusted capital ratio as low as feasible. As at 31 December 2007 and 2006, the Group did not have net debt.

TREASURY POLICY

As at 31 December 2007, the Group had cash and cash equivalents of approximately RMB724,683,000 (2006: approximately RMB673,797,000). The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong respectively as the funding sources of the Group's working capital requirements and its capital expenditures requirements.

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2007, the Group had approximately 500 employees (2006: 670 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 year under review, the total staff costs of the Group were approximately RMB16,596,000 (2006: approximately RMB18,139,000).

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

During the year under review, the Company had granted 20,000,000 (2006: 70,500,000) share options to the directors and employees under the 2004 share option scheme. About 25,428,000 share options have been exercised during the year under review.

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

For the year ended 31 December 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 appreciation of RMB, the Group will closely monitor the foreign exchange exposure and will take prudent measures as deemed appropriate.

SIGNIFICANT INVESTMENT AND ACQUISITION

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

CAPITAL COMMITMENT

As at 31 December 2007, the Group's commitment in respect of assets acquisition described in note 34 to the financial statements.

CHARGES ON ASSETS

As at 31 December 2007, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group (2006: Nil).

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had contingent liabilities described in note 35 to the financial statements.

Biographical Information of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Yeung Chung Lung, aged 55, has been the Chairman of the Group since its establishment in 1995. He has over 24 years of experience in agriculture, fishery farming and food processing industry and is a 高級農技師 (senior agricultural technician) as well. In the 1980's, he spent one year in Japan for fishery farming and processing research study. He is also a member of the 政治協商會議福清市委員會 (Fujian Province Fuqing City Committee of Chinese People's Political Consultative Conference), and the Vice-President of the 福建省福州市工商聯合會 (Fujian Province City General Chamber of Commerce). Mr. Yeung received various agricultural professional and entrepreneurship awards from the Fujian Provincial Government. Mr. Yeung is the founder of the Group. Mr. Yeung is responsible for the overall planning and strategic development. Mr. Yeung is the father of Mr. Yang Le and father-in-law of Mr. Ni Chao Peng.

Mr. Yang Le, aged 31, has been a director of the Group since May 2001. He is the Chief Executive Officer of the Group. He is responsible for the overall management and quality control of the Group. Mr. Yang joined the Group in August 1998 as a production manager. Mr. Yang completed his college education from 福建省農業大學 (Fujian Agricultural University) and spent a year in Switzerland's Ecole-Lemania school for an English program after his graduation from 福建省農業大學 (Fujian Agricultural University) in 1998. He is the son of Mr. Yeung Chung Lung and Mr. Ni Chao Peng is his brother-in-law.

Mr. Ni Chao Peng, aged 33, has been a director of the Group since May 2001. Mr. Ni has obtained a degree in Master of Business Administration from The Open University of Hong Kong in 2004. Before, he completed a bachelor's degree in engineering and majored in water and electricity engineering and architecture from 南京河海大學 (Nanjing Hohai University) in July 1998. As an engineer, Mr. Ni is responsible for the engineering technology and construction design of the Group. Mr. Ni joined the Group in August 1998 as a vice general manager. Mr. Yeung Chung Lung is his father-in-law and he is brother-in-law of Mr. Yang Le.

Mr. Yip Tze Wai, Albert, aged 42, has been a director of the Group since December 2001. Mr. Yip has over 16 years of strategic planning and financial management experience in the Asia Pacific region. Mr. Yip graduated from the City University of Hong Kong with a bachelor's degree in accountancy and received a diploma in advanced securities market analysis from the Chinese University of Hong Kong. He also holds a Master of Science degree in information systems from the Hong Kong Polytechnic University. Prior to joining the Group in December 2001, he was an executive director of a corporate services company in Hong Kong and was responsible for the financing and accounting functions where he had extensive exposures in corporate finance function of the company.

Independent Non-executive Directors

Mr. Wong Chi Keung, aged 52, has been an independent non-executive Director of the Group since November 2007. Mr. Wong has over 30 years of experience in financing, accounting and management. Mr. Wong obtained a master degree in business administration from the University of Adelaide in Australia in 1986. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Chartered Association of Certified Accountants and CPA (Australia), an associate member of the Institute of Chartered Secretaries and Administrators and the Chartered Institute of Management Accountants. He is currently acting as independent non-executive directors of various listed companies in Hong Kong.

Mr. Lu Ze Jian, aged 60, has been an independent non-executive Director of the Group since October 2001. He is currently a professor of the research centre of 福建省農業大學 (Fujian Agriculture University). He has over 26 years of experience in agricultural industry and holds a master degree in 江蘇理工大學 (Agriculture from Jiangsu Polytechnic University). Professor Lu was a visiting scholar of New South Wales University from 1993 to 1995. He had received several awards from 福建省科學技術進步獎評審委員會辦公室 (Panel Office for Fujian Province Science Technology Improvement Prizes) related to agricultural and food processing research including technology advancement in food processing research in 1997.

Mr. Leung Chiu Shing, aged 55, has been an independent non-executive Director of the Group since September 2004. He is an executive director of Shing Hing Printing Company. He has served a number of government boards and committees including being a member of the Yau Tsim Mong Area Committee of the Home Affairs Department (Food and Environmental Hygiene Committee) and a member of the Yau Tsim Mong District Fight Crime Committee. He was also a Vice President of the Mong Kok Kaifong Association Limited. Mr. Leung has been commended for long and devoted community service, particularly in the area of community building, in the Yau Tsim Mong District by the Chief Executive of the Hong Kong Special Administrative Region in the year 2000.

Senior Management

Mr. Li Chi Fai, aged 41, joined the Group in 2002. He is the Chief Financial Officer and Company Secretary of the Group. Mr. Li is responsible for the Group's finance analysis, financial reporting and statutory filings. Mr. Li is currently a member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Practicing Accountants, Australia. Mr. Li had worked in several international accounting firms. He has over 12 years of experience in financial auditing and accounting. Mr. Li was previously a financial controller of a Hong Kong listed company.

Mr. Huang Zhiming, aged 34, is the manager of the finance department of the Group and a Certified Accountant in the PRC. He graduated from 福建省商業高等專科學校會計系 (Fujian Commercial College), majored in financial accounting. He has more than 10 years of experience in budgeting and foreign business taxation for manufacturing business. Mr. Huang joined the Group in May 1997.

Ms. Ye Jianhua, aged 33, is the quality control manager of the Group. She graduated from 福建省農業大學 (Fujian Agricultural University). Ms. Ye is a veterinary surgeon & hygiene inspection professional. She joined the Group in July 1997.

Mr. Zheng Mingfeng, aged 40, is the manager of research and development department of the Group. Mr. Zheng graduated from 福建省農業大學 (Fujian Agricultural University) with a Master degree in 農副產品儲藏與加工 (storage and processing of agricultural by-products) in July 1997. Mr. Zheng spent 8 years teaching in the Fujian Agricultural University before enrolling in graduate school to pursuit his master degree. Mr. Zheng joined the Group in September 1997.

The board of directors (the "Board") of First Natural Foods Holdings Limited (the "Company") has pleasure in submitting the annual report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 18 to the financial statements.

SEGMENTAL INFORMATION

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 15 to the financial statements.

FINANCIAL STATEMENTS

The consolidated income statement of the Group for the year ended 31 December 2007 and the state of the Group's affairs as at that date are set out in the financial statements on pages 39 to 113.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK$0.040 per share (approximately equivalent to RMB0.036 per share) for the year ended 31 December 2007 (2006: HK$0.045 per share (approximately equivalent to RMB0.044 per share)), subject to members' approval at the forthcoming annual general meeting to be held on 18 June 2008, to the members whose names appear on the Register of Members of the Company on 18 June 2008 and payable on or before 24 June 2008.

No interim dividend was declared for the six months ended 30 June 2007 (2006: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 16 June 2008 to Wednesday, 18 June 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, namely Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 13 June 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 30 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

BOARD OF DIRECTORS

The board of directors of the Company during the year and up to the date of this report are:

Executive directors:
Mr. Yeung Chung Lung *(Chairman)*
Mr. Yang Le *(Chief Executive Officer)*
Mr. Ni Chao Peng
Mr. Yip Tze Wai, Albert

Independent non-executive directors:
Mr. Tsui Chun Chung, Arthur *(resigned on 26 November 2007)*
Mr. Wong Chi Keung *(appointed on 26 November 2007)*
Mr. Lu Ze Jian
Mr. Leung Chiu Shing

In accordance with bye-law 87 of the Company's Bye-laws, Mr. Yip Tze Wai, Albert and Mr. Leung Chiu Shing will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with bye-law 86(2) of the Company's Bye-laws, Mr. Wong Chi Keung will retire and offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Yeung Chung Lung, Mr. Yang Le, Mr. Ni Chao Peng and Mr. Yip Tze Wai, Albert has entered into a service contract with the Company all dated 17 January 2002, except for Mr. Ni Chao Peng dated 18 January 2002, for a term of one year commencing on 11 February 2002 and shall continue thereafter unless and until terminated by either party giving not less than three months' notice in writing.

Each of Mr. Lu Ze Jian, Mr. Leung Chiu Shing and Mr. Wong Chi Keung has entered into a service contract with the Company for a term of three years commencing from 1 December 2007 until terminated by either party giving not less than one month's notice in writing.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of Directors and senior management are set out on pages 16 to 18 of this report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2007, none of the Directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2007, the interests and short positions of the Directors and Chief Executive 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	—	—	392,790,000 *(Note)*	392,790,000	35.01%

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 31 December 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 Executive 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 31 December 2007, so far as is known to the Directors, the following parties (other than the Directors and Chief Executive 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	392,790,000	35.01%
UBS AG	Beneficial owner	200,000	
	Person having a security interest in shares	147,215,000	
		147,415,000	13.14%
Crosby Capital Partners Inc. *(Note 2)*	Corporation	90,615,000	8.08%
Crosby Asset Management (Holdings) Limited *(Note 3)*	Corporation	90,615,000	8.08%
Crosby Asset Management Limited *(Note 4)*	Corporation	90,615,000	8.08%
Crosby Asset Management (Singapore) Limited *(Note 5)*	Corporation	90,615,000	8.08%
Crosby Active Opportunities Feeder Fund Limited *(Note 6)*	Corporation	90,615,000	8.08%
Crosby Active Opportunities Master Fund Limited *(Note 6)*	Beneficial owner	90,615,000	8.08%
Techpacific Capital Limited *(Note 2)*	Corporation	90,615,000	8.08%
Allianz SE *(Note 7)*	Corporation	61,790,000	5.70%
Allianz Fianzbeteiligungs GmbH *(Note 7)*	Corporation	61,790,000	5.70%
Dresdner Bank Aktiengesellschaft *(Note 8)*	Corporation	61,790,000	5.70%
Dresdner Bank Luxembourg S.A. *(Note 9)*	Corporation	61,790,000	5.70%
Veer Palthe Voute NV *(Note 10)*	Corporation	61,790,000	5.70%
The SFP Asia Fund L.P. *(Note 11)*	Beneficial owner	48,945,000	5.29%
The SFP Asia Master Fund Ltd. *(Note 11)*	Corporation	48,945,000	5.29%

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) Crosby Capital Partners Inc. is a company which is owned as to 82.33% by Techpacific Capital Limited.

(3) Crosby Asset Management (Holdings) Limited is a company which is wholly-owned by Crosby Capital Partners Inc.

(4) Crosby Asset Management Limited is a company which is wholly-owned by Crosby Asset Management (Holdings) Limited.

(5) Crosby Asset Management (Singapore) Limited is a company which is wholly-owned by Crosby Asset Management Limited.

(6) Crosby Active Opportunities Master Fund Limited is a company which is wholly-owned by Crosby Active Opportunities Feeder Fund Limited.

(7) Allianz Fianzbeteiligungs GmbH is a company which is wholly-owned by Allianz SE.

(8) Dresdner Bank Aktiengesellschaft is a company which is owned as to 81.1% by Allianz Fianzbeteiligungs GmbH.

(9) Dresdner Bank Luxembourg S.A. is a company which is wholly-owned by Dresdner Bank Aktiengesellschaft.

(10) Veer Palthe Voute NV is a company which is wholly-owned by Dresdner Bank Luxembourg S.A.

(11) The SFP Asia Master Fund Ltd is a company which is owned as to 19.8% by The SPF Asia Fund L.P.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the headings "Share Option Scheme" below and "Directors' and Chief Executive's 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.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there was any other contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

CONNECTED TRANSACTION

There were no significant related party transactions nor connected transactions as defined under the Listing Rules had entered into by the Group during the year ended 31 December 2007.

SHARE OPTION SCHEME

Details of the share option scheme of the Company and movement in share options are set out in note 32 to the financial statements.

CONVERTIBLE NOTES DUE 2011

Details of the convertible notes and conversion are set out in note 25 to the financial statements.

DETACHABLE WARRANTS

Details of the movements in detachable warrants are set out in note 33 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

In July 2007, the Company purchased and cancelled 3,300,000 shares of HK$0.05 each in the capital of the Company at prices ranging from HK$1.02 (approximately equivalent to RMB0.95) to HK$1.17 (approximately equivalent to RMB1.09) per share on the Stock Exchange. Such purchases involved a total cash outlay of HK$3,676,000 (approximately equivalent to RMB3,545,000) and were for the purpose of enhancing the Company's return on equity.

Save as disclosed above, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2007 are set out in note 24 to the financial statements.

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 for 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 31 December 2007, the outstanding amount owed by the Company in respect of this loan facility was approximately HK$193,198,000 (approximately equivalent to RMB180,176,000).

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year are as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	24%	
Five largest customers in aggregate	74%	
The largest supplier		15%
Five largest suppliers in aggregate		47%

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 114 of this report.

RETIREMENT SCHEME

Details of the retirement benefit scheme of the Group and the employers' costs charged to the consolidated income statement for the year ended 31 December 2007 are set out in notes 7(b) and 14 to the financial statements.

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, all the Directors confirmed that they had compiled with the required standards as set out in the Model Code during the year ended 31 December 2007.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation for independence pursuant to rule 3.13 of the Listing Rules. The independent non-executive Directors have confirmed that they are independent.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float.

REMUNERATION COMMITTEE

The remuneration committee (comprising executive director Mr. Yeung Chung Lung, and independent non-executive directors Mr. Wong Chi Keung (chairman) and Mr. Leung Chiu Shing) is responsible for advising the Board on the remuneration policy and framework of the Company's directors and senior management, as well as reviewing and determining 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. Wong Chi Keung (chairman), Mr. Lu Ze Jian and Mr. Leung Chiu Shing. The audit committee is responsible for reviewing the accounting principles and practices adopted by the Group and discussing auditing, internal control and financial reporting matters with the management. The audited annual financial statements of the Company for the year ended 31 December 2007 have been reviewed by the audit committee and the auditors of the Company.

NON-ADJUSTING POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

AUDITORS

The financial statements were audited by CCIF CPA Limited, Certified Public Accountants, who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as auditors of the Company is to be proposed at the forthcoming annual general meeting.

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, 22 April 2008

CORPORATE GOVERNANCE PRACTICES

The board (the "Board") of directors ("Director(s)") of First Natural Foods Holdings Limited (the "Company") is committed to maintaining a high standard of corporate governance. The Board believes that a high standard of corporate governance will provide a framework of the Company and its subsidiaries (collectively the "Group") to formulate the business strategies and policies, and manage the associated risks through effective internal control procedures. The Board also believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

The Company has adopted most of the major code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In the opinion of the Board, the Company has fully complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2007 (the "Year").

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for formulating overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal controls and the conduct of business in conformity with applicable laws and regulations.

The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant operational and financial matters. The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and senior management.

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

Composition

The Board comprises seven Directors of which four are executive Directors and three are independent non-executive Directors. The members of Directors and Board Committees are as follows:

Name	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Yeung Chung Lung *(Chairman)*	✔		✔
Mr. Yang Le *(Chief Executive Officer)*	✔		
Mr. Ni Chao Peng	✔		
Mr. Yip Tze Wai, Albert	✔		
Independent Non-executive Directors			
Mr. Wong Chi Keung *(appointed on 26 November 2007)*	✔	✔	✔
Mr. Lu Ze Jian	✔	✔	
Mr. Leung Chiu Shing	✔	✔	✔

Except Mr. Yang Le and Mr. Ni Chao Peng are the son and the son-in-law of Mr. Yeung Chung Lung respectively, to the best knowledge of the Company, there is no financial business, family or other material/relevant relationship amongst Directors. Biographical details of the Directors are set out on pages 16 to 17 under the section headed "Biographical Information of Directors and Senior Management" of the annual report.

During the Year, the Board held 6 regular and/or special Board meetings. The attendance of each member at the Board meetings is set out below:

Name of members	Number of meetings attended/Total
Executive Directors	
Mr. Yeung Chung Lung *(Chairman)*	6/6
Mr. Yang Le *(Chief Executive Officer)*	6/6
Mr. Ni Chao Peng	6/6
Mr. Yip Tze Wai, Albert	6/6
Independent Non-executive Directors	
Mr. Tsui Chun Chung, Arthur *(resigned on 26 November 2007)*	4/6
Mr. Wong Chi Keung *(appointed on 26 November 2007)*	2/6
Mr. Lu Ze Jian	6/6
Mr. Leung Chiu Shing	6/6

Chairman and Chief Executive Officer

The roles of the Chairman of the Board and the Chief Executive Officer of the Company are segregated to ensure their respective independence, accountability and responsibility.

Mr. Yeung Chung Lung, being the Chairman of the Group since its establishment in 1995, takes the lead in formulating overall strategies and policies of the Group; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. He also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner with the assistance of the company secretary of the Company (the "Company Secretary").

Mr. Yang Le, the Group's Chief Executive Officer, supported by other Board members and senior management, is responsible for managing day-to-day business of the Group. He is also accountable to the Board for the implementation of the Group's overall strategies and coordination of overall business operations.

Independent Non-executive Directors

The Board consists of three independent non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the independent non-executive Directors a confirmation of independence for the Year pursuant to Rule 3.13 of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

Service Term of Independent Non-executive Directors

In compliance with code provision A.4.1 of the CG Code, all independent non-executive Directors are appointed for a specific term for three years and subject to retirement by rotation in accordance with the Bye-laws of the Company.

Appointments, Re-election and Removal of Directors

The Board as a whole is responsible for the procedures agreeing to the appointment of its members and for nominating them for election by the shareholders on first appointment and thereafter at regular interval of rotation. Pursuant to the Company's Bye-laws, the Directors are subject to retirement by rotation at least once every three years and new Directors appointed by the Board are required to retire and offer themselves for re-election at the first general meeting of the Company following their appointments. The Company has not established any nomination committee and is not currently considering establishing the same owing to the small size of the Board. The Chairman of the Board is mainly responsible for identifying appropriate candidates to fill the casual vacancy whenever it arises or to add additional members as and when required. The Chairman will propose the qualified candidate(s) to the Board for consideration. The Board will approve the appointment based on the suitability and qualification of the candidate.

Audit Committee

The Company has established an audit committee (the "Audit Committee") on 17 January 2002. The Audit Committee currently comprises three independent non-executive Directors. The functions of the Audit Committee are:

- to make recommendations to the Board concerning the appointment, reappointment, retention, evaluation and determination of compensation and overseeing the work of the Company's independent auditor;
- to approve all non-audit services to be provided by the Company's independent auditor;
- to approve the remuneration and terms of engagement of the Company's independent auditor;
- to review the relationships between the Company and the independent auditor;
- to approve the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding one year;
- to review the Company's annual and interim financial statements, accounting policies and practices, the effectiveness of the Company's disclosure controls and procedures and developments in financial reporting practices and requirements;
- to review the Company's risk assessment and management policies; and
- to review the adequacy and effectiveness of the Company's legal and regulatory compliance procedures.

The current terms of reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code were approved by the Board.

During the Year, the audit committee held two meetings with full attendance, details of which are set out below:

Name of members	**Number of meetings attended/Total**
Independent Non-executive Directors	
Mr. Tsui Chun Chung, Arthur *(Chairman) (resigned on 26 November 2007)*	2/2
Mr. Wong Chi Keung *(Chairman) (appointed on 26 November 2007)*	0/2
Mr. Lu Ze Jian	2/2
Mr. Leung Chiu Shing	2/2

Under code provision C.3.4 of the CG Code, the terms of reference of audit committee have been posted to the Company's website.

Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") on 21 April 2005. The Remuneration Committee comprises three members, a majority of whom are independent non-executive Directors. The Remuneration Committee is responsible:

- to recommend to the Board on the Company's policies and structure for the remuneration of the Directors and senior management of the Group;
- to determine the remuneration packages of all executive Directors and senior management;
- to review and approve performance-based remuneration; and
- to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of office or appointment.

The major elements of executive and senior management remuneration package include, but not limited to, basic salary and a share option scheme:

Basic Salary

The head of human resource department annually reviews the basic salary of the Board and senior management in accordance with the Group's remuneration policy subject to the review of the Remuneration Committee and approved by the Board.

Share Option

The Remuneration Committee approves all grants of share options under the Company's approved share option scheme to the Board members and senior management, with regard to their individual performances and achievement of business targets in accordance with the Company's objectives of maximizing long-term shareholder value.

During the Year, the Remuneration Committee held two meetings, details of which are set out below:

Name of members	**Number of meetings attended/Total**
Executive Director	
Mr. Yeung Chung Lung *(Chairman)*	2/2
Independent Non-executive Directors	
Mr. Tsui Chun Chung, Arthur *(Chairman) (resigned on 26 November 2007)*	0/2
Mr. Wong Chi Keung *(Chairman) (appointed on 26 November 2007)*	2/2
Mr. Leung Chiu Shing	2/2

Under code provision B.1.4 of the CG Code, the terms of reference of the remuneration committee are required to be made available on request and included on the issuer's website. At present, the terms of reference of the remuneration committee have not yet posted to the Company's website.

DIRECTORS' SECURITIES TRANSACTIONS

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.

Having made specific enquiry of the Directors, all Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the Year.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements of the Group for the Year. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 37 to 38 of this report.

Internal Control

The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable but not absolute assurance against material misstatement or loss, and to manage risks of failure in the Group's operational systems and in the achievement of the Group's business objective.

The Group does not have an internal audit department. The Audit Committee has selected and outsourced to an independent audit firm to conduct an annual review of the effectiveness of the system of internal control of the Group. The internal control assessment report is addressed to the Audit Committee directly and the members of the Audit Committee have free and direct access to the independent audit firm without reference to the Chairman or management.

The Group has certain key internal controls include the followings:

Financial Control

The Board approves the Group's annual financial budgets and reviews the Group's operating and financial performance and key performance indicators against the budget on a semi-annual basis. Senior management closely monitors actual financial performance at the Group and business stream levels on a monthly basis.

Proper authorization, documentation and review over the revenue inflow (including customer order management and execution, customer credit control management, handling of accounts receivable, cash receipt and maintenance of customer records) and the expenditure outflow (including selection of supplier, contract management, procurement and payment procedures) of the Group are in place to ensure the effectiveness of financial reporting.

Details of the Group's financial risk management covering foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk respectively are set out in note 5 to the financial statements on pages 65 to 74.

Operational Control

The Group establishes and implements written Key Operating Indicators (KOI) and corporate policies encompassing key risk and control standards for the Group's operations. Control procedures are in place to approve our major investment and acquisition activities by the Board.

The Group has also a variety of contingencies plan to tackle unforeseen operational difficulties.

Regulatory Compliance Control

The designated disclosure officers of each department, under the supervision of the compliance officer, reviews the adherence to relevant laws and regulations, listing rules compliance, public disclosure requirements and our standards of compliance practices.

Risk Management

Through monthly inter-departmental management meetings, the Group is able to identify, evaluate and manage the risks faced (including liquidity risk, credit risk, operation risk and foreign exchange risk). The Audit Committee monitors and updates the Group's risk profile and exposure on a regular basis and reviews the effectiveness of the Group's system of internal control in mitigating risk. Key risk areas identified by the Audit Committee include food safety related issues, reputation, business credit and foreign exchange risks, investment and acquisitions, taxation, inventory and receivable management.

The operational, financial and compliance related documentation and significant information are reported to the Audit Committee and the Board to ensure the effectiveness of the internal control system. The Audit Committee will analyse the issue and report the findings to the Board.

Overall Assessment

Based on the assessments made by the independent audit firm and reviewed by the Audit Committee, the Board was satisfied that:

(i) the internal controls and accounting systems of the Group have been in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorization and the financial statements were reliable for publication; and

(ii) there was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, CCIF CPA Limited ("CCIF"), for the Year is set out as follows:

Services rendered	**Fee paid/ payable** Approximately RMB
Audit services (2006: approximately RMB529,000)	912,000
Non-audit services	—
Taxation services	92,000
Total:	1,004,000

EXTERNAL AUDITORS' INDEPENDENCE

To further enhance independent reporting by external auditors, part of our Audit Committee meetings were attended only by independent Non-executive Directors and external auditors. The external audit engagement partner is required to rotate periodically. The Audit Committee has scrutinized the nature and ratio of annual fees to external auditors for non-audit services and for audit services. Under this policy, certain specified non-audit services are prohibited. Other non-audit services (with a fee above a threshold) require prior approval of the Audit Committee. In addition, a policy restricting the employment of employees or former employees of external auditors at senior executive and financial positions with the Group has also been in place. Prior to the commencement of the audit of 2007 financial statements of the Company, the Audit Committee received written confirmation from the external auditors on their independence and objectivity as required by the Hong Kong Institute of Certified Public Accountants.

Members of the Audit Committee are satisfied with the findings of their review of the audit fees, process and effectiveness, independence and objectivity of CCIF, and the Audit Committee has recommended to the Board the reappointment of CCIF as the Company's external auditors at the forthcoming annual general meeting.

COMMUNICATION WITH SHAREHOLDERS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

To promote effective communication, the Company has established, including but not limited to, the following various channels:

1. annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at annual general meetings to address shareholders' queries;

2. separate resolutions are proposed at general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights;

3. interim and annual results are announced as early as possible so that shareholders of the Company are kept informed of the Group's performance and operations; and

4. the Company's website www.firstfoods.com.hk has been established for publication of press release and announcements.

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

TO THE SHAREHOLDERS OF
FIRST NATURAL FOODS HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of First Natural Foods Holdings Limited (the "Company") set out on pages 39 to 113, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 22 April 2008

Yau Hok Hung
Practising Certificate Number P04911

Consolidated Income Statement

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover	6	**739,484**	545,739
Cost of sales		**(405,269)**	(297,212)
Gross profit		**334,215**	248,527
Other revenue	6	**14,102**	7,876
Other net (loss)/income	6	**(12,101)**	1,644
Loss arising from a change in fair value of derivative financial instrument		**(51,290)**	—
Distribution costs		**(5,268)**	(6,094)
General and administrative expenses		**(39,816)**	(36,299)
Other operating expenses		**(2,998)**	(1,830)
Profit from operations		**236,844**	213,824
Finance costs	7(a)	**(32,890)**	(21,571)
Profit before taxation	7	**203,954**	192,253
Income tax	8	**(72,919)**	(54,247)
Profit attributable to equity holders of the Company	11	**131,035**	138,006
Dividends	12(a)	**41,975**	44,083
Earnings per share			
— Basic	13(a)	**RMB12.6 cents**	RMB14.8 cents
— Diluted	13(b)	**RMB12.0 cents**	RMB13.4 cents

The notes on pages 44 to 113 form an integral part of these financial statements.

Balance Sheets

As at 31 December 2007
(Expressed in Renminbi)

		The Group		The Company	
		2007	2006	**2007**	2006
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	16	**414,921**	242,324	**13**	16
Leasehold land and rental prepayments	17	**32,727**	27,626	**—**	—
Investment in subsidiaries	18	**—**	—	**131**	131
Deferred tax assets	29	**779**	812	**—**	—
		448,427	270,762	**144**	147
CURRENT ASSETS					
Leasehold land and rental prepayments	17	**18,566**	9,566	**—**	—
Inventories	19	**33,102**	26,768	**—**	—
Trade and other receivables	20	**167,323**	198,771	**464,804**	300,237
Financial assets designated at fair value	21	**18,652**	—	**18,652**	—
Bank deposits with original maturities over three months		**132,327**	169,358	**132,327**	169,358
Cash and cash equivalents	22	**724,683**	673,797	**26,612**	93,100
		1,094,653	1,078,260	**642,395**	562,695
CURRENT LIABILITIES					
Trade and other payables	23	**25,403**	38,792	**8,018**	3,901
Bank borrowings	24	**161,585**	98,336	**148,085**	56,836
Derivative financial instrument	26	**34,686**	—	**21,327**	—
Provision for staff welfare benefit	27	**11,446**	12,988	**—**	—
Tax payable	28	**13,805**	13,223	**—**	—
		246,925	163,339	**177,430**	60,737
NET CURRENT ASSETS		**847,728**	914,921	**464,965**	501,958
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,296,155**	1,185,683	**465,109**	502,105
NON-CURRENT LIABILITIES					
Bank borrowings	24	**105,391**	196,370	**105,391**	196,370
Convertible notes	25	**24,273**	94,989	**24,273**	94,989
Derivative financial instrument	26	**81,904**	—	**95,263**	—
Deferred tax liabilities	29	**1,022**	3,391	**1,022**	3,391
Financial guarantee contract	35	**—**	—	**17**	17
		212,590	294,750	**225,966**	294,767
NET ASSETS		**1,083,565**	890,933	**239,143**	207,338
CAPITAL AND RESERVES					
Share capital	30	**58,575**	51,750	**58,575**	51,750
Reserves	31	**1,024,990**	839,183	**180,568**	155,588
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**1,083,565**	890,933	**239,143**	207,338

Approved and authorised for issue by the board of directors on 22 April 2008.

Yeung Chung Lung
Director

Yang Le
Director

The notes on pages 44 to 113 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(Expressed in Renminbi unless otherwise stated)

	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 2006	48,679	149,159	41,421	34,326	10,081	138	7,606	538	425,120	717,068
Exchange differences on translation into presentation currency	–	–	–	–	–	–	–	3,118	–	3,118
Purchase of own shares	(20)	(262)	–	–	–	–	–	–	–	(282)
Exercise of shares options	1,413	14,051	–	–	–	(852)	–	–	–	14,612
Exercise of warrants	1,678	11,281	–	–	–	–	(3,059)	–	–	9,900
Equity settled share-based transactions	–	–	–	–	–	7,431	–	–	–	7,431
Issuance of convertible notes (note 25)	–	–	–	–	–	–	15,153	–	–	15,153
Dividend approved in respect of previous year (note 12(b))	–	–	–	–	–	–	–	–	(14,431)	(14,431)
Deferred tax effect on equity component (note 29)	–	–	–	–	–	–	358	–	–	358
Transfer	–	–	–	16,981	–	–	–	–	(16,981)	–
Profit for the year	–	–	–	–	–	–	–	–	138,006	138,006
At 31 December 2006	51,750	174,229	41,421	51,307	10,081	6,717	20,058	3,656	531,714	890,933
At 1 January 2007	**51,750**	**174,229**	**41,421**	**51,307**	**10,081**	**6,717**	**20,058**	**3,656**	**531,714**	**890,933**
Exchange differences on translation into presentation currency	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13,043**	**–**	**13,043**
Purchase of own shares	**(154)**	**(3,274)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,428)**
Exercise of shares options	**1,186**	**16,850**	**–**	**–**	**–**	**(3,507)**	**–**	**–**	**–**	**14,529**
Exercise of warrants	**842**	**5,493**	**–**	**–**	**–**	**–**	**(1,366)**	**–**	**–**	**4,969**
Equity settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**4,942**	**–**	**–**	**–**	**4,942**
Conversion of convertible notes	**4,951**	**76,549**	**–**	**–**	**–**	**–**	**(11,917)**	**–**	**–**	**69,583**
Dividend approved in respect of previous year (note 12(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(44,144)**	**(44,144)**
Deferred tax effect on equity component (note 29)	**–**	**–**	**–**	**–**	**–**	**–**	**2,103**	**–**	**–**	**2,103**
Transfer	**–**	**–**	**–**	**23,045**	**–**	**–**	**–**	**–**	**(23,045)**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**131,035**	**131,035**
At 31 December 2007	**58,575**	**269,847**	**41,421**	**74,352**	**10,081**	**8,152**	**8,878**	**16,699**	**595,560**	**1,083,565**

The notes on pages 44 to 113 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit from ordinary activities before taxation		**203,954**	192,253
Adjustments for:			
Depreciation		**29,297**	17,749
Amortisation of leasehold land and rental prepayments		**18,899**	15,566
Loss on disposal of property, plant and equipment		**27**	—
Allowance for doubtful debts		**389**	—
Recovery on doubtful debts		**—**	(3,553)
Employee share-based payment		**4,942**	7,431
Loss arising from a change in fair value of derivative financial instrument		**51,290**	—
Finance costs		**32,890**	21,571
Interest income		**(13,759)**	(7,738)
Operating profit before changes in working capital		**327,929**	243,279
(Increase)/decrease in inventories		**(6,334)**	1,988
Decrease/(increase) in trade and other receivables		**31,059**	(118,794)
(Decrease)/increase in trade payables and other payables (excluding due to a director)		**(16,511)**	22,377
Decrease in provision for staff welfare benefit		**(1,542)**	(972)
Cash generated from operations		**334,601**	147,878
Tax paid			
Mainland China enterprise income tax paid		**(72,339)**	(46,383)
Net cash generated from operating activities		**262,262**	101,495
Investing activities			
Payment for purchase of property, plant and equipment		**(201,923)**	(108,126)
Payment for rental prepayments		**(33,000)**	(22,420)
Proceeds from disposal of fixed assets		**2**	—
Decrease/(increase) in time deposits with original maturities over three months		**37,031**	(169,358)
Interest received		**13,759**	7,738
Payment for the acquisition of financial assets designated at fair value		**(18,652)**	—
Net cash used in investment activities		**(202,783)**	(292,166)

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Financing activities			
Proceeds from new bank loans		**32,152**	293,566
Repayment of bank loans		**(51,173)**	(70,000)
Increase/(decrease) in amount due to a director		**4,325**	(15,065)
Proceeds from issue of share capital		**19,498**	24,512
Upfront payment from new derivative financial instrument		**72,556**	—
Payment for loss on derivative financial instrument		**(7,256)**	—
Interest paid		**(28,992)**	(14,530)
Payment for repurchase of shares		**(3,428)**	(282)
Redemption of coupon bonds		**—**	(36,416)
Proceeds from issuance of new convertible notes		**—**	111,794
Dividends paid		**(44,144)**	(14,431)
Net cash (used in)/generated from financing activities		**(6,462)**	279,148
Increase in cash and cash equivalents		**53,017**	88,477
Cash and cash equivalents at beginning of the year		**673,797**	582,185
Effect of foreign exchange rate changes, net		**(2,131)**	3,135
Cash and cash equivalent at end of the year	22	**724,683**	673,797

The notes on pages 44 to 113 form an integral part of these financial statements.

1. CORPORATE INFORMATION

First Natural Foods Holdings Limited (the "Company") was incorporated in Bermuda on 27 July 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and its subsidiaries are principally engaged in manufacturing and sales of food products.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

The functional currencies of the Company and its mainland China subsidiaries are in Hong Kong dollars and Renminbi ("RMB") respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency, and all financial information presented in RMB has been rounded to the nearest thousand.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial assets designated at fair value and derivative financial instrument are stated at fair values as explained in the accounting policies set out in notes 2(w) and 2(x) respectively below.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Subsidiaries and minority interests (continued)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess and any further losses applicable to the minority are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)).

d) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 2(g)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(g)).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Other investments in debt and equity securities (continued)

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired (see note 2(g)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

e) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(g)):

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease; and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Construction in-progress represents buildings under construction and machinery pending for installation, and is stated at cost less any accumulated impairment losses (see note 2(g)). Cost comprises construction expenditure incurred, cost of machinery, and other direct costs capitalised during the construction and installation period. Capitalisation of these costs ceases and the construction in-progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property, plant and equipment (continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings	20 years
— Machinery	7 years
— Furniture and equipment	5 years
— Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Leased assets (continued)

ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

g) Impairment of assets

i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries (see note 2(g)(ii)) and other current or non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of assets (continued)

i) *Impairment of investments in debt and equity securities and other receivables (continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

— If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of assets (continued)

i) *Impairment of investments in debt and equity securities and other receivables* (continued)

— For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment loss recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in expect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills recoverable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of assets *(continued)*

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired.

— property, plant and equipment;

— leasehold land and rental prepayments; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of assets (continued)

ii) Impairment of other assets (continued)

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34 "Interim financial reporting" in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(g)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Inventories (continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(g)).

j) Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity component reserve.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in equity component reserve until the conversion option is exercised (in which case the balance stated in equity component reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in equity component reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Bank borrowings

Bank borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, bank borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

n) Employee benefits

i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a state-sponsored retirement plan organized by the relevant municipal government as stipulated by the regulations of mainland China are recognised as an expense in the profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Employee benefits (continued)

iii) The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in an employee share-based compensation reserve within equity. The fair value is measured at the grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve). The equity amount is recognised in the employee share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

p) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

Revenue is recognised when goods are delivered to the customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any goods returns and trade discounts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition (continued)

ii) Interest income

Interest income is recognised on a time-apportioned basis, taking into account the principal outstanding and the effective interest method.

iii) Government subsidies

Government subsidies, when they are received or when there is reasonably assurance that the subsidies will be received, are recognised on the basis as explained in the accounting policy set out in note 2(p) above.

r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange difference recognised in equity which relates to that foreign operation is included in the calculation of the profit or loss on disposal.

s) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Borrowing costs (continued)

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

t) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an equity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Segment reporting (continued)

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, bank borrowings, tax balances, corporate and financing expenses.

v) Financial guarantees issued, provisions and contingent liabilities

i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e., the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Financial guarantees issued, provisions and contingent liabilities (continued)

i) Financial guarantees issued (continued)

The amount of the guarantee initially recognised as deferred income is amortisation in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(v)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (2) the amount of that claims on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, that is, the amount initially recognised, less accumulated amortisation.

ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

w) Financial assets at fair value through profit or loss

Financial assets is recognised on the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets is initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest received from these financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Derivative financial instrument

Derivative financial instrument is recognized initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7 *"Financial instruments: Disclosures"* and the amendment to HKAS 1 *"Presentation of financial statements: Capital disclosures"*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the consolidated financial statements include expanded disclosures about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32 *"Financial instruments: Disclosure and presentation"*. These disclosures are provided throughout these financial statements, in particular in note 5(a).

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 5(b).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 39).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

a) Impairment on non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognised in accordance with accounting policy for impairment of non-current assets as described in note 2(g). The carrying amounts of non-current assets are reviewed annually in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit). It is difficult to precisely estimate selling price because quoted market prices for the Group's non-current assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

b) Allowance for impairment for doubtful debts

The Group estimates allowance for impairment of doubtful debts resulting from the inability of the customers to make the required payments. The Group bases its estimates on the ageing of the trade receivables, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected and could significantly affect the results of future periods.

c) Write-down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, a write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realizable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in the estimation.

5. FINANCIAL RISK MANAGEMENT

a) Financial risk factors

The Group has exposure to credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk) from its use of financial instruments. This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the Group's credit risk is primarily attributable to the trade and other receivables and deposits with financial institutions. Management has a credit policy in a place and the exposures to these credit risks are monitored on an ongoing basis.

(i) Trade and other receivables

The management has established a credit policy under which credit evaluations are performed on all customers requiring credit. Trade receivables are due 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. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the balance sheet date, the Group has a certain concentration of credit risk as 19.85% (2006: 17.48%) and 45.19% (2006: 43.28%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

5. FINANCIAL RISK MANAGEMENT (continued)

a) Financial risk factors (continued)

(i) Credit risk (continued)

(i) Trade and other receivables (continued)

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet after deducting any impairment allowance. Except for a financial guarantee given by the Company as set out in note 35, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of this financial guarantee at the Company's balance sheet is disclosed in note 35.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

(ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2007, the Group has certain concentration of credit risk as 78.98% (2006: 71.85%) of total cash and cash equivalents, bank deposits with original maturities over three months and financial assets designated at fair value were deposited at one financial institution in mainland China with high credit ratings.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

5. FINANCIAL RISK MANAGEMENT (continued)

a) Financial risk factors (continued)

(ii) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2007				
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**Total contractual undiscounted cash flow RMB'000**	**Carrying amount RMB'000**
Trade and other payables	**25,403**	**—**	**—**	**25,403**	**25,403**
Bank borrowings	**174,967**	**133,408**	**6,843**	**315,218**	**266,976**
Convertible notes	**3,886**	**2,361**	**27,868**	**34,115**	**24,273**
Derivative financial instrument	**35,557**	**35,450**	**55,733**	**126,740**	**116,590**

	2006				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade and other payables	38,792	—	—	38,792	38,792
Bank borrowings	122,659	105,692	103,830	332,181	294,706
Convertible notes	10,298	9,191	121,035	140,524	94,989

5. FINANCIAL RISK MANAGEMENT (continued)

a) Financial risk factors (continued)

(ii) Liquidity risk (continued)

The Company

	2007				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade and other payables	8,018	–	–	8,018	8,018
Bank borrowings	160,768	133,408	6,843	301,019	253,476
Convertible notes	3,886	2,361	27,868	34,115	24,273
Derivative financial instrument	35,557	35,450	55,733	126,740	116,590

	2006				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade and other payables	3,901	–	–	3,901	3,901
Bank borrowings	79,290	105,692	103,830	288,812	253,206
Convertible notes	10,298	9,191	121,035	140,524	94,989

5. FINANCIAL RISK MANAGEMENT (continued)

a) Financial risk factors (continued)

(iii) Currency risk

The Group is exposed to currency risk primarily through sales that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily United States dollars.

The Group ensures that the exposure on recognised assets arising from sales that are denominated in a currency other than the functional currency of the operations to which they relate is kept to an acceptable level, by buying or selling foreign currency at spot rate where necessary to address short-term imbalances.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related.

The Group

	2007		2006	
	USD'000	**HKD'000**	USD'000	HKD'000
Trade and other receivables	**15,615**	**—**	16,085	—
Cash and cash equivalents	**508**	**18,139**	3,537	17,960
Bank borrowings	**(5,000)**	**—**	(5,000)	—
Derivative financial Instrument	**(16,069)**	**—**	—	—
Overall net exposure	**(4,946)**	**18,139**	14,622	17,960

The Company

	2007		2006	
	USD'000	**HKD'000**	USD'000	HKD'000
Cash and cash equivalents	**43**	**—**	3,347	—
Bank borrowings	**(5,000)**	**—**	(5,000)	—
Derivative financial Instrument	**(16,069)**	**—**	—	—
Overall net exposure	**(21,026)**	**—**	(1,653)	—

An analysis of the estimated change in the Group's profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date is presented in the following table.

5. FINANCIAL RISK MANAGEMENT (continued)

a) Financial risk factors (continued)

(iii) Currency risk (continued)

The Group

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States dollar, USD	**10%**	**(3,589)**	10%	10,992
	(10%)	**3,589**	(10%)	(10,992)
Hong Kong dollar, HKD	**10%**	**1,692**	10%	1,735
	(10%)	**(1,692)**	(10%)	(1,735)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date while all other variables remains constant. The stated changes also represent management's assessment of reasonably possible change in foreign exchange rates until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(iv) Interest rate risk

The Group's interest rate risk arises primarily from the Group's bank deposits, bank borrowings and convertible notes. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out below.

5. FINANCIAL RISK MANAGEMENT (continued)

a) Financial risk factors (continued)

(iv) *Interest rate risk* (continued)

Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings/(deposits) (being bank borrowings and convertible notes less cash at bank and bank deposits) at the balance sheet date.

The Group

	2007		2006	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Net fixed rate borrowings/ (deposits):				
Bank borrowings	**6.57%–7.29%**	**13,500**	5.85%	41,500
Convertible notes	**9.20%**	**24,273**	9.20%	94,989
Less: Bank deposits with original maturities over three months	**4.60%**	**(132,327)**	4.60%	(169,358)
Cash at bank	**2.63%**	**(4,821)**	3.37%–3.93%	(24,906)
		(99,375)		(57,775)
Variable rate borrowings/ (deposits):				
Bank borrowings	**4.83%–6.88%**	**253,476**	5.22%–9.74%	253,206
Less: Cash at bank	**0.72%–5.40%**	**(717,490)**	0.72%–4.60%	(645,054)
		(464,014)		(391,848)
Total net deposits		**(563,389)**		(449,623)

5. FINANCIAL RISK MANAGEMENT (continued)

a) Financial risk factors (continued)

(iv) Interest rate risk (continued)

Interest rate profile (continued)

The Company

	2007		2006	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Net fixed rate borrowings/ (deposits):				
Convertible notes	**9.20%**	**24,273**	9,20%	94,989
Less: Bank deposits with original maturities over three months	**4.60%**	**(132,327)**	4.60%	(169,358)
Cash at bank	**2.63%**	**(4,821)**	3.37%–3.93%	(24,906)
		(112,875)		(99,275)
Variable rate borrowings/ (deposits):				
Bank borrowings	**4.83%–6.88%**	**253,476**	5.22%–9.74%	253,206
Less: Cash at bank	**4.45%–5.40%**	**(21,471)**	2.50%–4.60%	(67,628)
		232,005		185,578
Total net borrowings		**119,130**		86,303

At 31 December 2007, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately RMB1,408,000 (2006: approximately RMB1,124,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the non-derivative financial liabilities in existence at that date. The 25 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

5. FINANCIAL RISK MANAGEMENT (continued)

a) Financial risk factors (continued)

(v) Other Price risk

The Group is exposed to price index risk through derivative financial instrument (see note 26). The management monitors the price exposure closely and would consider hedging significant price exposure should the need arise.

At 31 December 2007, it is estimated that an increase/decrease of 1.5% in the Deutsche Bank Pan-Asian Forward Rate Bras Index, with all other variables held constant, the Group's profit before tax would increase by RMB7.2 million/decrease by RMB1.8 million respectively.

The sensitivity analysis above has been determined assuming that the reasonably possible changes in the price index had occurred at the balance sheet date and had been applied to the exposure to price risk in existence at that date. It is also assumed that the fair value of the Group's derivative financial instrument would change in accordance with the historical correlation with the relevant price index or the relevant risk variables, and that all other variable remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant index or the relevant risk variables over the period until the next annual balance sheet date.

b) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concerns, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes bank borrowings, convertible notes and other financial liabilities) less bank deposits and cash. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

5. FINANCIAL RISK MANAGEMENT (continued)

b) Capital risk management (continued)

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the net debt-to-adjusted capital ratio as low as feasible. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. As at 31 December 2007 and 2006, the Group did not have net debt.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

c) Fair value

Financial investments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

6. TURNOVER AND OTHER REVENUE AND OTHER NET (LOSS)/INCOME

Turnover represents the invoiced value of goods sold, less value-added tax, goods returns and trade discounts. An analysis of turnover and other revenue during the year is as follow:

	2007	2006
	RMB'000	RMB'000
Turnover	**739,484**	545,739
Interest income from banks	**13,759**	7,738
Subsidy income*	**300**	100
Sundry income	**43**	38
Other revenue	**14,102**	7,876
Total	**753,586**	553,615

* Subsidy income represents discretionary grants received from a municipal government in mainland China in respect of the development of agricultural products carried out by a subsidiary of the Company established in mainland China. The subsidy granted is unconditional, and the Group does not need to repay it back to the municipal government in mainland China.

6. TURNOVER AND OTHER REVENUE AND OTHER NET (LOSS)/INCOME (continued)

	2007 RMB'000	2006 RMB'000
Other net (loss)/income		
Reversal of impairment loss on trade receivables (note 20)	**—**	3,553
Allowance for doubtful debts (note 20)	**(389)**	—
Loss on disposal of property, plant and equipment	**(27)**	—
Net exchange loss	**(11,685)**	(1,909)
	(12,101)	1,644

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2007 RMB'000	2006 RMB'000
a) Finance costs		
Interest on bank borrowings wholly repayable within five years	**25,204**	14,026
Interest on coupon bonds and convertible notes	**7,686**	7,545
Total interest expenses on financial liabilities not at fair value through profit or loss	**32,890**	21,571

For the year ended 31 December 2007
(Expressed in Renminbi unless otherwise stated)

7. PROFIT BEFORE TAXATION (continued)

	2007 RMB'000	2006 RMB'000
b) Staff costs (include directors' remuneration)		
Contributions to Mandatory Provident Fund Scheme	**54**	55
Contributions to mainland China retirement plan	**784**	959
Total retirement costs	**838**	1,014
Share-based payments	**4,942**	7,431
Salaries, wages and other benefits	**10,815**	9,694
	16,595	18,139
c) Other items		
Amortisation of leasehold land and rental prepayments	**18,899**	15,566
Depreciation of property, plant and equipment	**29,297**	17,749
Cost of inventories#	**405,269**	297,212
Auditors' remuneration	**912**	529
Operating lease charges in respect of land and buildings	**1,230**	1,018

Cost of inventories includes approximately RMB31,059,000 (2006: RMB20,773,000) relating to staff costs and depreciation expense.

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) Taxation in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000
Current tax		
Mainland China enterprise income tax for the year	**72,921**	53,625
Deferred tax		
Origination and reversal of temporary differences (note 29)	**(2)**	622
	72,919	54,247

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

a) Taxation in the consolidated income statement represents: (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 the year as the Group had no estimated assessable profits for the year (2006: Nil).

iii) Mainland China enterprise income tax

Fuqing Longyu Food Development Co., Ltd., ("Fuqing Longyu"), a wholly-owned subsidiary of the Company, established in the Coastal Open Economic Area of mainland China, is subject to mainland China enterprise income tax at a rate of 24% for the year (2006: 24%). Jia Jing Commercial (Shanghai) Co., Ltd. ("Jia Jing"), another wholly-owned subsidiary of the Company, established in Shanghai of mainland China, is subject to mainland China preferential income tax rate of 15% for the year.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of mainland China ("New Tax Law") which took effect on 1 January 2008. Mainland China income tax rate is unified to 25% for all enterprises.

The State Council of mainland China passed an implementation guidance note ("Implementation Guidance") on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%.

Pursuant to the Notice on the Implementation Rules for Grandfathering Relief under the New Tax Law ("Notice 39") issued by The State Council on 26 December 2007, effective from 1 January 2008, the existing preferential income tax rate of 15% pertaining to one of the Group's foreign-invested enterprises established in mainland China will gradually transit to the applicable tax rate of 25%.

The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

Further under the New Tax Law, from 1 January 2008, non-resident enterprises without an establishment or place of business in mainland China or which have an establishment or place of business in mainland China but whose relevant income is not effectively connected with the establishment or a place of business in mainland China, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within mainland China. As certain of the Group's foreign-invested enterprises are directly held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax. The Group has already assessed the impact of the New Tax Law regarding this withholding tax and considered that the New Tax Law would not have a significant impact on the results of operations and financial position of the Group as at 31 December 2007.

According to the notice Caishui [2008] No. 1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Accordingly, the retained profits as at 31 December 2007 in the Group's foreign-invested enterprise's books and accounts will not be subject to 5% or 10% withholding tax on future distributions.

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 RMB'000	2006 RMB'000
Profit before tax	**203,954**	192,253
Notional tax on profit before tax, calculated at the rates applicable profits in the tax jurisdictions concerned	**43,484**	46,130
Tax effect of non-deductible expenses	**29,385**	8,104
Tax effect of non-taxable income	**(2)**	(4)
Tax effect of unused tax loss not recognised	**39**	—
Tax effect of prior years' tax loss utilized this year	**13**	17
Actual tax expense	**72,919**	54,247

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2007				
	Fees RMB'000	Basic salaries, allowances and benefits-in-kind RMB'000	Share option benefit RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Yeung Chung Lung	490	301	—	12	803
Yang Le	—	408	—	—	408
Ni Chao Peng	—	407	—	—	407
Yip Tze Wai, Albert	239	—	—	12	251
	729	1,116	—	24	1,869
Independent non-executive directors:					
Lu Ze Jian	—	—	—	—	—
Leung Chiu Shing	116	—	—	—	116
Wong Chi Keung (Appointed on 26 November 2007)	14	—	—	—	14
Tsui Chun Chung, Arthur (Resigned on 26 November 2007)	105	—	—	—	105
	235	—	—	—	235
Total	964	1,116	—	24	2,104

9. DIRECTORS' REMUNERATION (continued)

	2006				
	Fees RMB'000	Basic salaries, allowances and benefits-in-kind RMB'000	Share option benefit RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Yeung Chung Lung	—	689	1,014	12	1,715
Yang Le	—	61	1,014	—	1,075
Ni Chao Peng	—	60	1,014	—	1,074
Yip Tze Wai, Albert	—	252	203	12	467
	—	1,062	3,245	24	4,331
Independent non-executive directors:					
Lu Ze Jian	—	—	—	—	—
Leung Chiu Shing	122	—	101	—	223
Tsui Chun Chung, Arthur (Resigned on 26 November 2007)	122	—	—	—	122
	244	—	101	—	345
Total	244	1,062	3,346	24	4,676

Certain directors were granted options to subscribe for shares in the Company. The details of the share options granted and outstanding in respect of each director as at 31 December 2007 are disclosed in note 32 to the financial statements.

During the years 31 December 2007 and 2006, no amounts were paid or payable to the directors as an inducement to join the Group or as a compensation for loss of office and no director waived any emoluments.

9. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors are within the following bands:

	2007 Number of individuals	2006 Number of individuals
HK$Nil–HK$1,000,000 (approximately equivalent to RMB964,400)	**8**	4
HK$1,000,001–HK$1,500,000 (approximately equivalent to RMB964,401 to RMB1,446,600)	**—**	2
HK$1,500,001–HK$2,000,000 (approximately equivalent to RMB1,446,601 to RMB1,928,800)	**—**	1
	8	7

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees during the year included three (2006: three) directors, details of whose emoluments are disclosed in note 9 above. The aggregate of the emoluments in respect of the remaining two (2006: two) individuals are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	**1,053**	801
Share-based payments	**—**	1,164
Retirement scheme contributions	**24**	24
	1,077	1,989

The emoluments of the two (2006: two) individuals are within the following bands:

	2007 Number of individuals	2006 Number of individuals
HK$Nil–HK$1,000,000 (approximately equivalent to RMB964,400)	**2**	1
HK$1,000,001–HK$1,500,000 (approximately equivalent to RMB964,401 to RMB1,446,600)	**—**	1
	2	2

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

During the years 31 December 2007 and 2006, no emoluments were paid or payable to the five highest paid individuals (including directors and other employees) as an inducement to join the Group or as a compensation for loss of office.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of approximately RMB87,223,000 (2006: RMB31,409,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year

	2007	2006
	RMB'000	RMB'000
Amount of consolidated loss attributable to equity holders dealt with in the Company's financial statements	**(87,223)**	(31,409)
Final dividends from a subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**85,538**	21,419
Company's loss for the year (note 31(b))	**(1,685)**	(9,990)

12. DIVIDENDS

a) Dividends attributable to the year:

	2007	2006
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of HK$0.040 (equivalent to approximately RMB0.036) per ordinary share (2006: HK$0.045 (equivalent to approximately RMB0.044) per ordinary share)	**41,975**	44,083

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

12. DIVIDENDS (continued)

b) Dividends attributable to the previous financial year, approved and paid during the year:

	2007 RMB'000	2006 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.045 (equivalent to approximately RMB0.044) per ordinary share (2006: HK$0.015 (equivalent to approximately RMB0.0156) per ordinary share)	**44,144**	14,431

13. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB131,035,000 (2006: RMB138,006,000) and the weighted average number of 1,040,320,000 ordinary shares (2006: 932,690,000 ordinary shares) in issue during the year, calculated as follows:

	2007 Number of shares '000	2006 Number of shares '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**976,421**	918,472
Effect of share options exercised (note 32(d))	**19,517**	9,104
Effect of warrants exercised (note 30)	**11,768**	5,202
Effect of conversion of convertible notes (note 30)	**34,142**	—
Effect of shares repurchased (note 30)	**(1,528)**	(88)
Weighted average number of ordinary shares at 31 December	**1,040,320**	932,690

13. EARNINGS PER SHARE (continued)

b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB138,704,000 (2006: RMB140,153,000) and the weighted average number of 1,157,914,000 ordinary shares (2006: 1,046,411,000 ordinary shares), calculated as follows:

(i) Profit attributable to equity holders of the Company (diluted)

	2007 RMB'000	2006 RMB'000
Profit attributable to equity holder of the Company (basic)	**131,035**	138,006
After tax effect of effective interest on the liabilities component of convertible notes	**7,669**	2,147
Profit attributable to equity holder of the Company (diluted)	**138,704**	140,153

(ii) Weight average number of ordinary shares (diluted)

	2007 Number of shares '000	2006 Number of shares '000
Weighted average number of ordinary shares used in calculating basic earnings per share	**1,040,320**	932,690
Deemed issue of ordinary shares		
— share options	**8,712**	9,343
— warrants	**35,912**	50,911
— convertible notes	**72,970**	53,467
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,157,914**	1,046,411

14. EMPLOYEE RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK$20,000 (equivalent to approximately RMB18,652), contributions to the MPF Scheme vest immediately. Contributions paid or payable to the MPF scheme are charged to the income statement.

The employees of one of the Group’s subsidiaries in mainland China are members of a state-sponsored retirement plan organised by the municipal government under the regulations of the mainland China and this subsidiary makes mandatory contributions to the state-sponsored retirement plan to fund the employees’ retirement benefits. The retirement contributions paid by the mainland China subsidiary are based on a percentage of the eligible employees’ salaries and are charged to the income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan organised by the municipal government in mainland China.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and mainland China. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2007 in respect of the retirement benefits of its employees.

15. SEGMENT REPORTING

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 sale of frozen marine food products
Frozen functional food products	:	The manufacture and sale of frozen functional food products
Seasoned convenient products	:	The manufacture and sale of seasoned convenient food products
Retail shops	:	Sale of food products in UBI brand

15. SEGMENT REPORTING (continued)

Business segments (continued)

	Frozen marine food products		Frozen functional food products		Seasoned convenient products		Retail shops		Inter-segment elimination		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**324,362**	292,816	**375,816**	236,180	**34,182**	16,743	**5,124**	–	**–**	–	**739,484**	545,739
Inter-segment revenue	**2,971**	–	**–**	–	**–**	–	**–**	–	**(2,971)**	–	**–**	–
Total	**327,333**	292,816	**375,816**	236,180	**34,182**	16,743	**5,124**	–	**(2,971)**	–	**739,484**	545,739
Segment result	**157,946**	139,974	**159,426**	100,464	**15,024**	8,089	**1,833**	–	**(14)**	–	**334,215**	248,527
Unallocated operating income and expenses											**(97,371)**	(34,703)
Profit from operations											**236,844**	213,824
Finance costs											**(32,890)**	(21,571)
Income tax											**(72,919)**	(54,247)
Profit attributable to equity holders of the Company											**131,035**	138,006
Amortisation of leasehold land and rental prepayment (unallocated item)											**18,899**	15,566
Depreciation for the year:												
Segment depreciation	**5,104**	3,484	**2,131**	1,749	**4,004**	2,406	**130**	–			**11,369**	7,639
Unallocated depreciation											**17,928**	10,110
											29,297	17,749
Segment assets	**224,374**	138,189	**119,501**	129,529	**61,433**	38,813	**2,405**	–			**407,713**	306,531
Unallocated assets											**1,135,367**	1,042,491
Total assets											**1,543,080**	1,349,022
Segment liabilities											**–**	–
Unallocated liabilities											**459,515**	458,089
Total liabilities											**459,515**	458,089
Capital expenditure incurred during the year:												
Segment capital expenditure	**80,000**	–	**11,300**	815	**–**	5,076	**2,205**	–			**93,505**	5,891
Unallocated capital expenditure											**108,418**	102,235
Total											**201,923**	108,126

15. SEGMENT REPORTING (continued)

Geographical segments

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

	Mainland China		Japan		Unites States of America		Others		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**39,852**	27,749	**472,012**	317,963	**205,032**	197,329	**22,588**	2,698	**739,484**	545,739

Approximately 91% (2006: 87%) of the Group's sales for the year were exported from mainland China to Japan, United States of America and other countries using third party export companies in the mainland China which have export rights.

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations; hence no analysis is given of the profit contributions from the above geographical locations.

No analysis of segment assets and capital expenditure incurred during the year by geographical location is presented as all of the Group's assets are located in the People's Republic of China (including mainland China and Hong Kong).

16. PROPERTY, PLANT AND EQUIPMENT

	The Group						The Company
	Buildings	Machinery	Furniture and equipment	Motor vehicles	Construction in-progress	Total	Furniture and equipment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2006	137,305	88,734	2,288	2,764	–	231,091	775
Exchange adjustments	–	–	(33)	–	–	(33)	(33)
Additions	44,887	58,829	315	189	3,906	108,126	9
At 31 December 2006	182,192	147,563	2,570	2,953	3,906	339,184	751
Accumulated depreciation							
At 1 January 2006	30,598	45,652	1,668	1,222	–	79,140	612
Exchange adjustments	–	–	(29)	–	–	(29)	(29)
Charge for the year	6,480	10,604	431	234	–	17,749	152
Amortisation of prepaid land lease payments	–	–	–	–	16	16	–
Capitalisation of amortisation of prepaid land lease payments	–	–	–	–	(16)	(16)	–
At 31 December 2006	37,078	56,256	2,070	1,456	–	96,860	735
Net book value							
At 31 December 2006	145,114	91,307	500	1,497	3,906	242,324	16
Cost							
At 1 January 2007	**182,192**	**147,563**	**2,570**	**2,953**	**3,906**	**339,184**	**751**
Exchange adjustments	**–**	**–**	**(48)**	**–**	**–**	**(48)**	**(48)**
Additions	**111,020**	**81,887**	**7,678**	**–**	**1,338**	**201,923**	**15**
Transfer	**1,923**	**8**	**–**	**–**	**(1,931)**	**–**	**–**
Disposals	**–**	**–**	**–**	**(194)**	**–**	**(194)**	**–**
At 31 December 2007	**295,135**	**229,458**	**10,200**	**2,759**	**3,313**	**540,865**	**718**
Accumulated depreciation							
At 1 January 2007	**37,078**	**56,256**	**2,070**	**1,456**	**–**	**96,860**	**735**
Exchange adjustments	**–**	**–**	**(48)**	**–**	**–**	**(48)**	**(48)**
Charge for the year	**8,621**	**19,701**	**738**	**237**	**–**	**29,297**	**18**
Amortisation of prepaid land lease payments	**–**	**–**	**–**	**–**	**38**	**38**	**–**
Capitalisation of amortisation of prepaid land lease payments	**–**	**–**	**–**	**–**	**(38)**	**(38)**	**–**
Written back on disposals	**–**	**–**	**–**	**(165)**	**–**	**(165)**	**–**
At 31 December 2007	**45,699**	**75,957**	**2,760**	**1,528**	**–**	**125,944**	**705**
Net book value							
At 31 December 2007	**249,436**	**153,501**	**7,440**	**1,231**	**3,313**	**414,921**	**13**

The construction in progress at 31 December 2007 comprised costs incurred on properties under construction with land use right in mainland China under medium-term lease. These properties are carried at cost.

17. LEASEHOLD LAND AND RENTAL PREPAYMENTS

	The Group		
	Leasehold land prepayments (note) RMB'000	Rental prepayments RMB'000	Total RMB'000
Cost			
At 1 January 2006	10,292	59,420	69,712
Additions	—	22,420	22,420
At 31 December 2006	10,292	81,840	92,132
Amortisation			
At 1 January 2006	1,240	38,134	39,374
Amortised for the year	226	15,340	15,566
At 31 December 2006	1,466	53,474	54,940
Net book value			
At 31 December 2006	8,826	28,366	37,192
Analysed for reporting purposes as:			
Current assets	226	9,340	9,566
Non-current assets	8,600	19,026	27,626
	8,826	28,366	37,192
Cost			
At 1 January 2007	**10,292**	**81,840**	**92,132**
Additions	**—**	**33,000**	**33,000**
At 31 December 2007	**10,292**	**114,840**	**125,132**
Amortisation			
At 1 January 2007	**1,466**	**53,474**	**54,940**
Amortised for the year	**226**	**18,673**	**18,899**
At 31 December 2007	**1,692**	**72,147**	**73,839**
Net book value			
At 31 December 2007	**8,600**	**42,693**	**51,293**
Analysed for reporting purposes as:			
Current assets	**226**	**18,340**	**18,566**
Non-current assets	**8,374**	**24,353**	**32,727**
	8,600	**42,693**	**51,293**

Note: The leasehold land is held for own use and is located in mainland China under a land lease term for a period of 50 years up to December 2045.

18. INVESTMENT IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	RMB'000
		(restated)
Unlisted shares, at cost	**114**	114
Financial guarantee granted to a subsidiary	**17**	17
	131	131

Details of the subsidiaries at 31 December 2007 were as follows:

Name of company	Establishment/ Place of incorporation and operation	Particulars of issued and paid up capital/ registered capital	Equity interest held by the Company Directly %	Equity interest held by the Company Indirectly %	Principal activities
First China Technology Limited	British Virgin Islands/ Hong Kong	US$1,000	100%	—	Investment holding
Smart Dragon International Trading Limited	Hong Kong	HK$100	100%	—	Trading of food products
Fuqing Longyu Food Development Co., Ltd. (note (i))	Mainland China	US$23,000,000*	—	100%	Manufacturing and sale of food products
Ningbo Dingwei Food Development Co., Ltd. (note (ii))	Mainland China	US$3,000,000	—	100%	Inactive
Jia Jing Commercial (Shanghai) Co., Ltd. (note (iii))	Mainland China	HK$10,000,000	—	100%	Sale of food products in UBI brand
First China Technology (Hong Kong) Limited	Hong Kong	HK$1	100%	—	Inactive

* During the year, the registered capital of Fuqing Longyu was increased from US$13,000,000 to US$23,000,000 and US$19,000,000 has been paid up by the Group. The remaining unpaid registered capital US$4,000,000 will be paid up before July 2009.

18. INVESTMENT IN SUBSIDIARIES (continued)

Note:

(i) Fuqing Longyu is a wholly-foreign-owned enterprise established in mainland China to operate for 50 years up to 2045.

(ii) Ningbo Dingwei is a wholly-foreign-owned enterprise established in mainland China to operate for 20 years up to 2026.

(iii) Jia Jing is a wholly-foreign-owned enterprise established in mainland China to operate for 30 years up to 2037.

19. INVENTORIES

	The Group	
	2007	2006
	RMB'000	RMB'000
Raw materials, at cost	**1,551**	1,396
Finished goods, at cost	**31,551**	27,691
	33,102	29,087
Less: Write-down of obsolete and slow-moving inventories	**—**	(2,319)
	33,102	26,768

20. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
		2007	2006	**2007**	2006
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Due from subsidiaries	(i)	**—**	—	**462,387**	297,462
Trade receivables		**134,340**	144,537	**—**	—
Advances to employees		**148**	98	**—**	162
Interest receivable		**1,858**	2,255	**1,858**	2,255
Loans and receivables		**136,346**	146,890	**464,245**	299,879
Advances to suppliers	(ii)	**3,739**	880	**—**	—
Rental and other deposits		**15,928**	7,288	**335**	358
Prepayments		**11,310**	43,713	**224**	—
		167,323	198,771	**464,804**	300,237

Note:

(i) The amounts due from subsidiaries are unsecured, non-interest-bearing and have no fixed terms of repayment.

(ii) All the advances to suppliers as at 31 December 2007 will be settled through deduction of future purchases payable to these suppliers. All advances to suppliers are unsecured and non-interest-bearing.

(iii) All of trade and other receivables, apart from rental and other deposits, are expected to be recovered or recognized as expenses within one year.

20. TRADE AND OTHER RECEIVABLES (continued)

a) Ageing analysis

The ageing analysis of trade receivables as of the balance sheet date is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Within 1 month	**59,189**	75,785
More than 1 month but within 3 months	**69,602**	68,727
More than 3 months but within 6 months	**5,772**	25
More than 6 months but within 1 year	**166**	—
	134,729	144,537
Less: Allowance for doubtful debts (note 20(b))	**(389)**	—
	134,340	144,537

Trade receivables are usually due within 3 months from the date of billing. Further details of the Group's credit policy are set out in note 5(a)(i).

b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

20. TRADE AND OTHER RECEIVABLES (continued)

b) Impairment of trade receivables (continued)

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**–**	3,553
Recovery on doubtful debts*	**–**	(3,553)
Impairment loss recognised**	**389**	—
At 31 December	**389**	—

* In 2006, the Group recovered doubtful debts of approximately RMB3,553,000 which was impaired in previous years.

** At 31 December 2007, the Group's trade receivables of approximately RMB389,000 (2006: Nil)) were individually impaired. The individually impaired receivables related to invoices that were default in payments and management assessed that it is highly unlikely that the receivables can be recovered. Consequently, specific allowances for doubtful debts of approximately RMB389,000 (2006: Nil) were recognized. The Group does not hold any collateral over these balances.

c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	**128,791**	144,512
3 to 12 months past due	**5,549**	25
	134,340	144,537

20. TRADE AND OTHER RECEIVABLES (continued)

c) Trade receivables that are not impaired (continued)

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest rate linked deposit	**18,652**	—	**18,652**	—

a) During the year, the Company entered into an interest rate linked deposit contract with a commercial bank.

b) The interest rate linked deposit contract was designated as financial assets at fair value through profit or loss upon initial recognition.

c) The interest rate linked deposit contract is measured at fair value at each balance sheet date. The fair value was based on a valuation carried out by an independent professionally qualified valuer, using binomial lattice model. The principal amount of the interest rate linked deposit contract was HK$20,000,000 (equivalent to approximately RMB18,652,000).

Key terms of the interest rate linked contract are summarised as follows:

Principal date:	HK$20,000,000
Effective date:	30 November 2007
Maturity date:	30 November 2008
Interest rate:	4% of p.a. (1st quarter of 3 months) 12 x (3.8% — HKD 3 Months HIBOR) p.a., upper capped at 10% p.a. (2nd to 4th quarter of 3 months)
Termination:	The Company can inform the Bank on 6th to 9th of the month to apply for termination, plus 1% bank charge on principal amount

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks	**4,821**	24,906	**4,821**	24,906
Cash at bank and in hand	**719,862**	648,891	**21,791**	68,194
Cash and cash equivalents in the balance sheets and consolidated cash flow statement	**724,683**	673,797	**26,612**	93,100

As at 31 December 2007, the Group's cash and bank balances of approximately RMB677,248,123 (2006: RMB560,887,000) were denominated in Renminbi, a currency which is not freely convertible into other currencies.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**488**	17,468	**—**	—
Finance costs payable	**1,954**	3,157	**1,954**	3,157
Accruals and other payables	**2,895**	1,832	**902**	744
Other tax payables	**12,906**	13,500	**—**	—
Due to a director (note)	**7,160**	2,835	**5,162**	—
Financial liabilities measured at amortised cost	**25,403**	38,792	**8,018**	3,901

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

All of trade and other payables are excepted to be settled within one year or are repayable on demand.

23. TRADE AND OTHER PAYABLES (continued)

The ageing analysis of trade payables as of the balance sheet date is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Within 1 month	**420**	17,035
After 1 month but within 3 months	**47**	377
After 3 months but within 6 months	**—**	56
After 6 months	**21**	—
	488	17,468

24. BANK BORROWINGS

At 31 December 2007, bank borrowings were unsecured and repayable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**161,585**	98,336	**148,085**	56,836
After 1 year but within 2 years	**100,728**	196,370	**100,728**	196,370
After 2 years but within 5 years	**4,663**	—	**4,663**	—
	266,976	294,706	**253,476**	253,206
Non-current portion	**105,391**	196,370	**105,391**	196,370
Current portion	**161,585**	98,336	**148,085**	56,836

At 31 December 2007, the terms of bank loans were as follows:

(a) Bank loans of RMB7,000,000 and RMB6,500,000 (2006: RMB41,500,000) carried interest at fixed interest rates of 7.29% and 6.57% per annum respectively (2006: 5.85% per annum) and are repayable within one year.

(b) Bank loans of USD5,000,000 (2006: USD5,000,000) carried interest at 1.75% (2006: 1.75%) over LIBOR per annum and are repayable within one year.

24. BANK BORROWINGS (continued)

(c) Bank loans of approximately HK$11,364,000 (2006: HK$20,455,000) and approximately HK$18,333,000 (2006: Nil) carried interest at 2% (2006: 2%) over HIBOR per annum and are repayable on quarterly basis until 23 February 2009 and 27 August 2010 respectively.

(d) Bank loans of HK$10,000,000 (2006: HK$10,000,000) carried interest at 2.75% (2006: 2.75%) over HIBOR per annum and are repayable within one year.

(e) Bank loans of HK$195,000,000 (2006: HK$195,000,000) carried interest at 1.25% (2006: 1.25%) over HIBOR per annum and are repayable on semi-annual basis until 20 July 2009.

25. CONVERTIBLE NOTES

On 14 September 2006, the Company issued convertible notes in an aggregate principal amount of HK$116,000,000 (equivalent to approximately RMB115,562,100 at 3% interest per annum payable on a semi-annual basis). Subject to certain adjustments, the convertible notes will be convertible into the shares of the Company at an initial conversion price of HK$0.85 (equivalent to approximately RMB0.9) per share.

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 at 3% per annum will be paid up until that settlement date.

The convertible notes contain two components, the liability and the equity components. The equity component is presented in equity as an “Equity Component Reserve”. The effective interest rate of the liability component is approximately 9.2%.

25. CONVERTIBLE NOTES (continued)

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

	RMB'000
Proceeds from issuance of the convertible notes	111,794
Equity component (net of deferred tax) (note 31)	(15,153)
Deferred tax liability (note 29)	(3,214)
Liability component at date of issue	93,427
Interest charged	2,602
Interest payable	(1,040)
Balance as at 31 December 2006 and 1 January 2007	94,989
Exchange adjustment	(6,234)
Conversion of convertible note during the year	(69,583)
Interest charged	7,686
Interest payable	(2,585)
Balance as at 31 December 2007	24,273

26. DERIVATIVE FINANCIAL INSTRUMENT

	The Group and The Company	
	2007	2006
	RMB'000	RMB'000
Interest rate swap contract, at fair value	**116,590**	—
Less: Non-current portion	**81,904**	—
Current portion	**34,686**	—

a) During the year, the Company entered into an interest rate swap contract ("the Swap") with a notional amount of USD100,000,000 (equivalent to approximately RMB753,000,000) with a commercial bank (the "Bank"), under which an upfront payment of USD10,000,000 (equivalent to approximately RMB72,556,000) was received at the inception of the Swap and were initially recognised as derivative financial liability in the balance sheets. According to this contract, the Company will receive at a fixed rate and the Group will pay at a floating rate determine by Deutsche Bank Pan-Asian Forward Rate Bias Index as published on Bloomberg. The Swap contract matured in 2012.

26. DERIVATIVE FINANCIAL INSTRUMENT (continued)

b) The Swap is remeasured at fair value as estimated by the Bank based on certain assumptions at each balance sheet date. The key terms of the interest rate swap contract are summarized as follows:

Notional amount:		USD100,000,000
Upfront payment:		USD10,000,000
Effective date:		4 May 2007
Maturity date:		4 May 2012
Bank pays:		8% (semi-annually)
The Company pays:	First six-months:	10% (semi-annually)
	Thereafter:	10% – 5 x (Index YoY Return – 1%) Coupon capped at 13% and floored at 0% (semi-annually) (see note below)

Note: Index means the Deutsche Bank Pan-Asian Forward Rate Bias Index (the "Index") as published on Bloomberg.

Index YoY Return is the closing level of the Index five business days prior to the end of the relevant coupon payment period/closing level of the Index five business days prior to the coupon payment date which is two coupon payment periods prior to the relevant coupon payment (or effective date in case of the second coupon payment period) – 1.

27. PROVISION FOR STAFF WELFARE BENEFIT

	The Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**12,988**	13,960
Utilised for the year	**(1,542)**	(972)
At 31 December	**11,446**	12,988

The provision can be utilised for the provision of welfare to the employees of Fuqing Longyu.

28. TAX PAYABLE

Current taxation in the consolidated balance sheet represents:

	The Group	
	2007	2006
	RMB'000	RMB'000
Mainland China enterprise income tax		
At 1 January	**13,223**	5,981
Provision for the year	**72,921**	53,625
Tax paid for the year	**(72,339)**	(46,383)
At 31 December	**13,805**	13,223

29. DEFERRED TAXATION

The components of deferred tax assets/(liabilities) recognised in the balance sheets and the movements during the current year are as follows:

	The Group				
Deferred tax arising from:	**Impairment loss of obsolete and slow-moving inventories**	**Impairment loss of bad and doubtful debts**	**Other temporary differences**	**Coupon bonds and convertible notes equity components**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	532	853	335	(808)	912
Exchange adjustments	—	—	(13)	—	(13)
(Charged)/credited to profit or loss	—	(853)	(42)	273	(622)
Deferred tax recognised on equity component of convertible notes (note 25)	—	—	—	(3,214)	(3,214)
Credited to reserves	—	—	—	358	358
At 31 December 2006	532	—	280	(3,391)	(2,579)
At 1 January 2007	**532**	**—**	**280**	**(3,391)**	**(2,579)**
Exchange adjustments	**—**	**—**	**(18)**	**249**	**231**
Credited/(charged) to profit or loss:					
— tax effect of change in tax rate	**—**	**—**	**—**	**(15)**	**(15)**
— others	**—**	**64**	**(79)**	**32**	**17**
Credited to reserves:					
— tax effect of change in tax rate	**—**	**—**	**—**	**196**	**196**
— others	**—**	**—**	**—**	**1,907**	**1,907**
At 31 December 2007	**532**	**64**	**183**	**(1,022)**	**(243)**

29. DEFERRED TAXATION (continued)

	The Company				
Deferred tax arising from:	**Impairment loss of obsolete and slow-moving inventories**	**Impairment loss of bad and doubtful debts**	**Other temporary differences**	**Coupon bonds and convertible notes equity components**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	—	—	(808)	(808)
Credited to profit or loss	—	—	—	273	273
Deferred tax recognised on equity component of convertible notes	—	—	—	(3,214)	(3,214)
Credited to reserves	—	—	—	358	358
At 31 December 2006	—	—	—	(3,391)	(3,391)
At 1 January 2007	**—**	**—**	**—**	**(3,391)**	**(3,391)**
Exchange adjustments	**—**	**—**	**—**	**249**	**249**
Credited/(charged) to profit or loss:					
— tax effect of change in tax rate	**—**	**—**	**—**	**(15)**	**(15)**
— others	**—**	**—**	**—**	**32**	**32**
Credited to reserves:					
— tax effect of change in tax rate	**—**	**—**	**—**	**196**	**196**
— others	**—**	**—**	**—**	**1,907**	**1,907**
At 31 December 2007	**—**	**—**	**—**	**(1,022)**	**(1,022)**

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net deferred tax assets recognised on the balance sheets	**779**	812	**—**	—
Net deferred tax liabilities recognised on the balance sheets	**(1,022)**	(3,391)	**(1,022)**	(3,391)
	(243)	(2,579)	**(1,022)**	(3,391)

30. SHARE CAPITAL

		2007		2006	
		Number of shares	**Amount**	Number of shares	Amount
	Note	**'000**	**RMB'000**	'000	RMB'000
Authorised:					
— Ordinary shares of HK$0.05		**2,000,000**	**106,000**	2,000,000	106,000
Issued and fully paid:					
— Ordinary shares of HK$0.05					
At 1 January		**976,421**	**51,750**	918,472	48,679
Exercise of share options (note 32(d))		**25,428**	**1,186**	26,670	1,413
Exercise of warrants	(i)	**17,360**	**842**	31,659	1,678
Conversion of convertible notes	(ii)	**106,173**	**4,951**	—	—
Shares repurchased	(iii)	**(3,300)**	**(154)**	(380)	(20)
At 31 December		**1,122,082**	**58,575**	976,421	51,750

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Note:

(i) During the year, 131 (2006: 240) detachable warrants were exercised to subscribe for 17,360,037 ordinary shares (2006: 31,658,625 ordinary shares) in the Company at an exercise price of HK$0.295 (equivalent to approximately RMB0.286) per ordinary share.

(ii) During the year, holders of convertible notes exercised the conversion right attached to the notes to the extent of HK$86,000,000 (equivalent to approximately RMB80,203,600) of the principal amount outstanding at the conversion price of HK$0.81 (equivalent to approximately RMB0.755).

(iii) During the year, the Company repurchased its own 3,300,000 ordinary shares (2006: 380,000 ordinary shares) on the Stock Exchange at prices ranging from HK$1.02 (equivalent to approximately RMB0.95) to HK$1.17 (equivalent to approximately RMB1.09) (2006: ranging from HK$0.71 (equivalent to approximately RMB0.75) to HK$0.69 (equivalent to approximately RMB0.73)) per ordinary shares. The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares, and the premium paid on the repurchase of shares was charged to share premium account.

31. RESERVES

a) The Group

	Share premium	Merger reserve	Statutory reserve fund (note (i))	Enterprise expansion reserve fund (note (ii))	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
At 1 January 2006	149,159	41,421	34,326	10,081	138	7,606	538	425,120	668,389
Exchange differences on translation into presentation currency	–	–	–	–	–	–	3,118	–	3,118
Purchase of own shares	(262)	–	–	–	–	–	–	–	(262)
Exercise of share options	14,051	–	–	–	(852)	–	–	–	13,199
Exercise of warrants	11,281	–	–	–	–	(3,059)	–	–	8,222
Equity settled share-based transactions	–	–	–	–	7,431	–	–	–	7,431
Issuance of convertible notes (note 25)	–	–	–	–	–	15,153	–	–	15,153
Dividend approved in respect of previous year (note 12(b))	–	–	–	–	–	–	–	(14,431)	(14,431)
Deferred tax effect on equity component (note 29)	–	–	–	–	–	358	–	–	358
Transfer	–	–	16,981	–	–	–	–	(16,981)	–
Profit for the year	–	–	–	–	–	–	–	138,006	138,006
At 31 December 2006	174,229	41,421	51,307	10,081	6,717	20,058	3,656	531,714	839,183
At 1 January 2007	**174,229**	**41,421**	**51,307**	**10,081**	**6,717**	**20,058**	**3,656**	**531,714**	**839,183**
Exchange differences on translation into presentation currency	**–**	**–**	**–**	**–**	**–**	**–**	**13,043**	**–**	**13,043**
Purchase of own shares	**(3,274)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,274)**
Exercise of share options	**16,850**	**–**	**–**	**–**	**(3,507)**	**–**	**–**	**–**	**13,343**
Exercise of warrants	**5,493**	**–**	**–**	**–**	**–**	**(1,366)**	**–**	**–**	**4,127**
Equity settled share-based transactions	**–**	**–**	**–**	**–**	**4,942**	**–**	**–**	**–**	**4,942**
Conversion of convertible notes	**76,549**	**–**	**–**	**–**	**–**	**(11,917)**	**–**	**–**	**64,632**
Dividend approved in respect of previous year (note 12(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(44,144)**	**(44,144)**
Deferred tax effect on equity component (note 29)	**–**	**–**	**–**	**–**	**–**	**2,103**	**–**	**–**	**2,103**
Transfer	**–**	**–**	**23,045**	**–**	**–**	**–**	**–**	**(23,045)**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**131,035**	**131,035**
At 31 December 2007	**269,847**	**41,421**	**74,352**	**10,081**	**8,152**	**8,878**	**16,699**	**595,560**	**1,024,990**

31. RESERVES (continued)

a) The Group (continued)

Note:

(i) According to the relevant rules and regulations in mainland China, Fuqing Longyu is required to transfer approximately 10% of after-tax profit (after offsetting prior years' losses), based on its mainland China statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in mainland China, to a statutory reserve fund until the balance of the fund reaches 50% of its registered capital. Thereafter, any further transfer can be made at the directors' discretion. The statutory reserve fund can be utilized to offset prior years' losses, or be converted into paid-up capital on condition that the statutory reserve fund should be maintained at a minimum of 25% of the registered capital of this subsidiary after conversion.

During the year, Fuqing Longyu transferred approximately RMB23,045,000 (2006: RMB16,981,000) to statutory reserve fund.

(ii) According to the relevant rules and regulations in mainland China, Fuqing Longyu may also appropriate a portion of its after-tax profit (after offsetting prior years' losses), based on its mainland China statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in mainland China, to an enterprise expansion reserve fund at the discretion of its board of directors. The enterprise expansion reserve fund can be utilised for conversion into paid-up capital.

No such appropriations have been made for the year ended 31 December 2007 and 2006.

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31. RESERVES (continued)

b) The Company

	Share premium	Employee share-based compensation reserve	Equity component reserve	Exchange reserve	Accumulative losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	149,159	138	7,606	(3,166)	(9,389)	144,348
Exchange differences on translation into presentation currency	–	–	–	(8,440)	–	(8,440)
Purchase of own shares	(262)	–	–	–	–	(262)
Exercise of shares options	14,051	(852)	–	–	–	13,199
Exercise of warrants	11,281	–	(3,059)	–	–	8,222
Equity settled share-based transactions	–	7,431	–	–	–	7,431
Issuance of convertible notes (note 25)	–	–	15,153	–	–	15,153
Dividend approved in respect of previous year (note 12(b))	–	–	–	–	(14,431)	(14,431)
Deferred tax effect on equity component (note 29)	–	–	358	–	–	358
Loss for the year	–	–	–	–	(9,990)	(9,990)
At 31 December 2006	174,229	6,717	20,058	(11,606)	(33,810)	155,588
At 1 January 2007	**174,229**	**6,717**	**20,058**	**(11,606)**	**(33,810)**	**155,588**
Exchange differences on translation into presentation currency	**–**	**–**	**–**	**(15,064)**	**–**	**(15,064)**
Purchase of own shares	**(3,274)**	**–**	**–**	**–**	**–**	**(3,274)**
Exercise of shares options	**16,850**	**(3,507)**	**–**	**–**	**–**	**13,343**
Exercise of warrants	**5,493**	**–**	**(1,366)**	**–**	**–**	**4,127**
Equity settled share-based transactions	**–**	**4,942**	**–**	**–**	**–**	**4,942**
Conversion of convertible notes	**76,549**	**–**	**(11,917)**	**–**	**–**	**64,632**
Dividend approved in respect of previous year (note 12(b))	**–**	**–**	**–**	**–**	**(44,144)**	**(44,144)**
Deferred tax effect on equity component (note 29)	**–**	**–**	**2,103**	**–**	**–**	**2,103**
Loss for the year	**–**	**–**	**–**	**–**	**(1,685)**	**(1,685)**
At 31 December 2007	**269,847**	**8,152**	**8,878**	**(26,670)**	**(79,639)**	**180,568**

31. RESERVES (continued)

c) Distributability of reserves

In accordance with Section 40 of the Bermuda Companies Act 1981, the share premium account of the Company is distributable to the shareholders of the Company in the form of fully paid bonus shares.

At 31 December 2007, the aggregate amount of reserves available for distribution to equity holders of the Company was approximately RMB190,208,000 (2006: RMB140,419,000) subject to the restriction on the share premium account as stated above. After the balance sheet date the directors proposed a final dividend of HK$0.040 (equivalent to approximately RMB0.036) per ordinary share (2006: HK$0.045 (equivalent to approximately RMB0.044 per ordinary share)), amounting to approximately RMB41,975,000 (2006: RMB44,144,000). This dividend has not been recognised as a liability at the balance sheet date.

32. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "2002 Scheme") pursuant to a resolution passed on 17 January 2002 for the primary purpose of providing incentives to directors and eligible persons, and which will expire on 16 January 2012. Under the 2002 Scheme, the Company may grant options to any person who is a director or employee (whether full-time or part-time) of the Group or any other groups or classes of suppliers, customers, sub-contractors or agents of the Group or any other persons from time to time determined by the Board as having contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company. No options have ever been granted under the 2002 Scheme since its adoption.

Pursuant to a resolution passed at a special general meeting of the shareholders held on 4 June 2004, the Company terminated the 2002 Scheme and adopted a new share option scheme (the "2004 Scheme") which will expire on 3 June 2014.

The purpose of the 2004 Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to the employees, officers and directors of the Group; and to promote the long-term financial success of the Company by aligning the interests of option holder to shareholders. Under the terms of the 2004 Scheme, the Board of the Company may, in its absolute discretion, grant options to any person employed by the Company or any subsidiary and any person who is an officer as a director of the Company or any subsidiary within the definition prescribed in the 2004 Scheme, to subscribe for shares in the Company.

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32. SHARE OPTION SCHEME (continued)

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the 2004 Scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the 2004 Scheme. The total number of shares issued and to be issued upon exercise of the options, whether exercised or outstanding, in any 12-month period granted to each eligible person must not exceed 1% of the shares of the Company in issue. Any further grant to options in excess of the individual limit must be subject to shareholders' approval.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK$1.00 on acceptance of the offer of options. The period within which the shares of the Company must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option. The subscription price is determined by the Board in its absolute discretion which, in any event, shall not be less than the highest of (a) the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of that option, which must be a business day; (b) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of that option; and (c) the nominal value for the time being of each share of the Company.

a) Movements in share options

	Number of options	
	2007	2006
At 1 January	**43,830,000**	33,000,000
Issued during the year	**20,000,000**	37,500,000
Exercised during the year	**(25,428,000)**	(26,670,000)
At 31 December	**38,402,000**	43,830,000
Options vested at 31 December	**38,402,000**	43,830,000

(Expressed in Renminbi unless otherwise stated)

32. SHARE OPTION SCHEME (continued)

b) The terms of the grants that existed during the year are as follows:

Date of grant	Exercisable period	Exercise price	Number of options 2007	Number of options 2006
(i) Options granted to directors				
23 July 2004	23 July 2004 to 22 July 2014	HK$0.489	**5,930,000**	8,000,000
19 January 2005	19 January 2005 to 18 January 2015	HK$0.560	**500,000**	500,000
28 April 2006	28 April 2006 to 27 April 2016	HK$0.690	**16,500,000**	16,500,000
			22,930,000	25,000,000
(ii) Options granted to employees				
23 July 2004	23 July 2004 to 22 July 2014	HK$0.489	**4,200,000**	24,500,000
27 April 2006	27 April 2006 to 26 April 2016	HK$0.662	**15,700,000**	20,000,000
28 April 2006	28 April 2006 to 27 April 2016	HK$0.690	**1,000,000**	1,000,000
9 October 2007	9 October 2007 to 8 October 2017	HK$1.050	**20,000,000**	—
			40,900,000	45,500,000
			63,830,000	70,500,000

(Expressed in Renminbi unless otherwise stated)

32. SHARE OPTION SCHEME (continued)

c) Details of share options by category of participant

Name or category of participant	At 1 January 2006	Granted during the year (note 3)	Exercised during the year	At 31 December 2006 and at 1 January 2007	Grant during the year (note 3)	Exercise during the year	At 31 December 2007	Date of grant	Exercisable period	Exercise price HK$	Weighted Average closing price (note 2) 2007 HK$	Weighted Average closing price (note 2) 2006 HK$
Directors:												
Yeung Chung Lung	3,000,000	–	–	3,000,000	–	(3,000,000)	**–**	23/07/2004	23/07/2004–22/07/2014	0.489	**1.320**	–
	–	5,000,000	–	5,000,000	–	(5,000,000)	**–**	28/04/2006	28/04/2006–27/04/2016	0.690	**1.320**	–
Yang Le	2,000,000	–	–	2,000,000	–	–	**2,000,000**	23/07/2004	23/07/2004–22/07/2014	0.489	**–**	–
	–	5,000,000	–	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	**–**	0.660
	–	5,000,000	–	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	–	(728,000)	**202,000**	23/07/2004	23/07/2004–23/07/2006	0.489	**0.890**	0.750
	–	1,000,000	–	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	–	(500,000)	**–**	19/01/2005	19/1/2005–18/01/2015	0.560	**0.930**	–
Leung Chiu Shing	–	500,000	–	500,000	–	–	**500,000**	28/04/2006	28/4/2006–27/04/2016	0.690	**–**	–
Employees:												
In aggregate	24,500,000	–	(20,300,000)	4,200,000	–	(4,200,000)	**–**	23/07/2004	23/07/2004–22/07/2014	0.489	**0.915**	0.710
	–	20,000,000	(4,300,000)	15,700,000	–	(11,000,000)	**4,700,000**	27/04/2006	27/04/2006–26/04/2016	0.662	**0.920**	0.720
	–	1,000,000	–	1,000,000	–	(1,000,000)	**–**	28/04/2006	28/04/2006–27/04/2016	0.690	**0.890**	–
	–	–	–	–	20,000,000	–	**20,000,000**	09/10/2007	09/10/2007–08/10/2017	1.050	**–**	–
Total	33,000,000	37,500,000	(26,670,000)	43,830,000	20,000,000	(25,428,000)	**38,402.000**					

Note:

1. No option lapsed or has been cancelled during the years ended 31 December 2007 and 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 25,428,000 (2006: 26,670,000) options were exercised during the year, the weighted average closing price of the share immediately before the dates on which the options were exercised was approximately HK$1.043 (2006: HK$0.710).

3. The closing prices immediately before the dates of options granted on 9 October 2007 (2006: 27 April 2006 and 28 April 2006) was HK$1.03 (2006: HK$0.63 and HK$0.66 respectively).

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32. SHARE OPTION SCHEME (continued)

c) Details of share options by category of participant (continued)

4. The fair value of the options granted on 27 April 2006, 28 April 2006 and 9 October 2007 were approximately HK$3,662,000, HK$3,348,000 and HK$5,300,000 respectively (equivalent to approximately RMB3,881,720, RMB3,548,880 and RMB4,942,780 respectively). The fair value of options was estimated on the date of the granted using the Black-Scholes option pricing model with the following parameters:

		Options granted on 27 April 2006	**Options granted on 28 April 2006**	**Options granted on 9 October 2007**
(i)	Exercise price	HK$0.662	HK$0.690	HK$1.04
(ii)	Risk free rate of interest over the life of the options	4.842% p.a.	4.803% p.a.	3.986% p.a.
(iii)	Volatility	39%	39%	40.41%
(iv)	Expected dividend yield	5%	5%	4.33%
(v)	Expected life	10 years	10 years	10 years

d) During the year, options were exercised to subscribe for 25,428,000 (2006: 26,670,000) ordinary shares in the Company at a total consideration of approximately RMB14,529,000 (2006: RMB14,612,000) of which approximately RMB1,186,000 (2006: RMB1,413,000) was credited to share capital and the balance of approximately RMB13,343,000 (2006: RMB13,199,000) was credited to the share premium account. Approximately RMB3,507,000 (2006: RMB852,000) has been transferred from the employee share-based compensation reserve to the share premium account in accordance with the accounting policy set out in note 2(n)(iii).

No any share options were exercised after balance sheet date up to the date of approval of these financial statements.

33. WARRANTS

The Company issued 2.5% coupon bonds (the “Bonds”), with detachable warrants attached, on 10 April 2003, and all of the Boards were redeemed by the Company on 31 July 2006. The holders of the warrants (the “Warrantholders”) may exercise the subscription rights attached 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 per warrant by the Subscription Price.

33. WARRANTS (continued)

a) Movement in warrants:

	Number of warrants	
	2007	2006
At 1 January	**470**	710
Exercised during the year	**(131)**	(240)
At 31 December	**339**	470

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

Date of grant	Exercisable period	Number of warrants	
		2007	2006
10 April 2003	10 April 2003 to 9 April 2008	**339**	470

c) Subsequent to the balance sheet date, warrant holders exercised 75 and 264 (2006: 26 and 5) detachable warrants to subscribe for 10,416,067 and 36,717,196 (2006: 3,441,166 and 662,177) ordinary shares in March and April 2008 (2006: February and March 2007) respectively at the exercise price of HK$0.28 (equivalent to approximately RMB0.26) (2006: HK$0.295 (equivalent to approximately RMB0.30) per ordinary share.

34. COMMITMENTS

a) Capital commitments

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Acquisition of property, plant and equipment				
— contracted for but not provided for	**75,383**	116,496	**—**	—
— authorised but not contracted for	**8,000**	100,500	**—**	—
	83,383	216,996	**—**	—

34. COMMITMENTS (continued)

b) Operating lease commitments

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**21,165**	16,686	**502**	1,162
After 1 year but within 5 years	**69,758**	61,783	**—**	423
After 5 years	**111,120**	123,680	**—**	—
	202,043	202,149	**502**	1,585

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.

35. CONTINGENT LIABILITIES

At the balance sheet date, the Company has issued a single guarantee to a bank in respect of loan facility granted to a subsidiary of RMB13,500,000 (2006: RMB41,500,000).

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

36. MATERIAL RELATED PARTY TRANSACTIONS

a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and all of the highest paid employees as disclosed in note 10, is as follows:

	2007	2006
	RMB'000	RMB'000
Short-term employee benefits	**3,133**	2,107
Post-employment benefits	**48**	48
Equity compensation benefits	**—**	4,510
	3,181	6,665

Total remuneration is included in "staff costs" (see note 7(b)).

b) Financing arrangements

As at 31 December 2007, amounts of approximately RMB7,160,000 (2006: RMB2,835,000) and RMB5,162,000 (2006: Nil) due by the Group and the Company respectively to Mr. Yeung Chung Lung, a director of the Company, are unsecured, non-interest bearing and have no fixed terms of repayment. Such amounts due to a director are included in "Trade and other payables".

37. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the warrantholders completely exercised 339 detachable warrants. Based on the latest exercise price of HK$0.28 (equivalent to approximately RMB0.26), the aggregate subscription shares were 47,133,263 which represented approximately 4% of the issued capital of the Company as at 31 December 2007. The total consideration was approximately HK$13,197,314 (equivalent to approximately RMB12,308,000).

(b) After the balance sheet date, the Company's directors proposed a final dividend. Further details are disclosed in note 12.

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38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation. As a result of adopting HKFRS 7, *"Financial instruments: Disclosures"*, and the amendments to HKAS 1, *"Presentation of financial statements: Capital disclosures"*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE, FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for annual periods beginning on or after
HKAS 1 (Revised), *Presentation of Financial Statements*	1 January 2009
HKAS 23 (Revised), *Borrowing Costs*	1 January 2009
HKAS 27 (Revised), *Consolidated and Separate Financial Statements*	1 July 2009
HKFRS 3 (Revised), *Business Combinations*	1 July 2009
HKFRS 8, *Operating Segments*	1 January 2009
HK(IFRIC)-Int 11, HKFRS 2 — *Group and Treasury Share Transactions*	1 March 2007
HK(IFRIC)-Int 12, *Service Concession Arrangements*	1 January 2008
HK(IFRIC)-Int 13, *Customer Loyalty Programmes*	1 July 2008
HK(IFRIC)-Int 14, HKAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	1 January 2008

Financial Year Summary

For the year ended 31 December 2007
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	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
	(Restated)	(Restated)			
Results					
Turnover	378,378	434,122	432,652	545,739	**739,484**
Profit from operations	163,368	168,905	163,076	213,824	**236,844**
Finance costs	(15,061)	(6,890)	(7,304)	(21,571)	**(32,890)**
Profit before taxation	148,307	162,015	155,772	192,253	**203,954**
Income tax	(39,388)	(42,162)	(42,311)	(54,247)	**(72,919)**
Profit attributable to equity holders	108,919	119,853	113,461	138,006	**131,035**
Assets and liabilities					
Property, plant and equipment	126,522	171,406	151,951	242,324	**414,921**
Deferred tax assets	–	45	912	812	**779**
Leasehold land and rental prepayments	37,968	17,837	17,260	27,626	**32,727**
Net current assets	397,927	472,702	546,945	914,921	**847,728**
Total assets less current liabilities	562,417	661,990	717,068	1,185,683	**1,296,155**
Non-current liabilities	(81,491)	(30,210)	—	(294,750)	**(212,590)**
	480,926	631,780	717,068	890,933	**1,083,565**
Share capital	43,485	48,679	48,679	51,750	**58,575**
Reserves	437,441	583,101	668,389	839,183	**1,024,990**
	480,926	631,780	717,068	890,933	**1,083,565**
Earnings per share					
— Basic	RMB13.3 cents	RMB13.3 cents	RMB12.4 cents	RMB14.8 cents	**RMB12.6 cents**
— Diluted	RMB13.2 cents	RMB12.8 cents	RMB11.9 cents	RMB13.4 cents	**RMB12.0 cents**