FIRST NATURAL FOODS
HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 1076

Interim Report 2008

The board of directors (the "Board") of First Natural Foods Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	For the six months ended 30 June **2008** **RMB'000** **(Unaudited)**	 2007 RMB'000 (Unaudited)
Turnover	3	**478,707**	386,415
Cost of sales		**(271,919)**	(208,773)
Gross profit		**206,788**	177,642
Other revenue	3	**5,353**	7,829
Other net loss		**(4,436)**	(182)
Loss arising from a change in fair value of derivative financial instrument		**(18,890)**	(19,166)
Distribution costs		**(3,731)**	(1,991)
General and administrative expenses		**(18,052)**	(15,842)
Other operating expenses		**(1,424)**	(907)
Profit from operations		**165,608**	147,383
Finance costs	5(a)	**(6,341)**	(16,783)
Profit before taxation	5	**159,267**	130,600
Income tax	6(a)	**(47,338)**	(39,040)
Profit attributable to equity holders of the Company		**111,929**	91,560
Dividends	7	**43,034**	44,144
Earnings per share			
– Basic	8(a)	**RMB9.72 cents**	RMB9.15 cents
– Diluted	8(b)	**RMB9.34 cents**	RMB7.98 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	413,267	414,921
Intangible assets		15,000	–
Leasehold land and rental prepayments		25,944	32,727
Deferred tax assets		766	779
		454,977	448,427
CURRENT ASSETS			
Leasehold land and rental prepayments		15,566	18,566
Inventories	10	65,226	33,102
Trade and other receivables	11	291,813	167,323
Financial assets designated at fair value		–	18,652
Bank deposits with original maturities over three months		5,570	132,327
Cash and cash equivalents		792,886	724,683
		1,171,061	1,094,653
CURRENT LIABILITIES			
Trade and other payables	12	39,153	25,403
Bank borrowings		163,374	161,585
Derivative financial instrument	14	23,680	34,686
Provision for staff welfare benefit		10,867	11,446
Tax payable	6(b)	26,566	13,805
		263,640	246,925
NET CURRENT ASSETS		907,421	847,728
TOTAL ASSETS LESS CURRENT LIABILITIES		1,362,398	1,296,155

	Note	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Bank borrowings		61,872	105,391
Convertible notes	13	23,567	24,273
Derivative financial instrument	14	87,622	81,904
Deferred tax liabilities	6(c)	330	1,022
		173,391	212,590
NET ASSETS		1,189,007	1,083,565
CAPITAL AND RESERVES			
Share capital	15	61,387	58,575
Reserves	15	1,127,620	1,024,990
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		1,189,007	1,083,565

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June			
	2008		2007	
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Total equity at 1 January		1,083,565		890,933
Profit for the period		111,929		91,560
Dividend approved during the period		(43,034)		(44,144)
Deferred tax effect on equity component		530		595
Conversion of convertible notes		–		25,408
Release of equity component upon conversion		(3,535)		(1,366)
Exchange adjustment		14,711		(4,500)
Movement in shareholders' equity arising from capital transactions				
– Shares issued	2,812		2,071	
– Net premium received	24,941		19,314	
– Equity settled share-based transactions	(2,912)		–	
		24,841		21,385
Total equity at 30 June		1,189,007		979,871

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	**(3,119)**	102,606
Net cash generated from investing activities	**115,091**	118,348
Net cash used in financing activities	**(44,292)**	(52,399)
Increase in cash and cash equivalents	**67,680**	168,555
Cash and cash equivalents at 1 January	**724,683**	673,797
Effect of foreign exchange rate changes, net	**523**	(7,116)
Cash and cash equivalents at 30 June	**792,886**	835,236

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements except for new standards, amendments to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2008 as stated in note 2.

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

The condensed consolidated financial statements contain selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2007 that is included in the condensed consolidated financial statements as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 April 2008.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2007 except for the following new standards, amendments to standards and interpretations which are effective for accounting periods beginning on or after 1 January 2008:

HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-INT 12	Service Concession Arrangements
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of such interpretations does not result in significant changes to the Group's accounting policies.

2. CHANGES IN ACCOUNTING POLICIES (continued)

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ending 31 December 2008 and have not been early adopted by the Group:

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Cost [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segment [1]
HK(IFRIC)-INT 13	Customer Loyalty Programmes [3]

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

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

3. TURNOVER AND OTHER REVENUE

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

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

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

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Turnover	**478,707**	386,415
Interest income from banks	**4,990**	7,523
Subsidy income *	**–**	150
Sundry income	**363**	156
Other revenue	**5,353**	7,829
Total	**484,060**	394,244

* 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.

4. SEGMENT INFORMATION

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

Business segments

The Group comprises the following main business segments:

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

For the six months ended 30 June (unaudited)

	Frozen marine food products		Frozen functional food products		Seasoned convenient food products		Retail shops		Inter-segment elimination		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**189,004**	163,189	**265,684**	210,560	**16,571**	12,666	**7,448**	–	**(5,085)**	–	**473,622**	386,415
Inter-segment revenue	**3,229**	–	**1,856**	–	**–**	–	**–**	–	**–**	–	**5,085**	–
Total	**192,233**	163,189	**267,540**	210,560	**16,571**	12,666	**7,448**	–	**(5,085)**	–	**478,707**	386,415
Segment result	**93,657**	82,287	**103,821**	89,445	**7,068**	5,910	**2,770**	–	**(528)**	–	**206,788**	177,642
Unallocated operating income and expenses											**(41,180)**	(30,259)
Profit from operations											**165,608**	147,383
Finance costs											**(6,341)**	(16,783)
Income tax											**(47,338)**	(39,040)
Profit attributable to equity holders of the Company											**111,929**	91,560

Geographical segments

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

For the six months ended 30 June (unaudited)

	Mainland China		Japan		United States of America		Others		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**46,214**	14,829	**296,260**	270,073	**114,653**	100,134	**21,580**	1,379	**478,707**	386,415

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		For the six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
a)	Finance costs		
	Interest on bank borrowings wholly repayable within five years	**5,305**	12,475
	Interest on coupon bonds and convertible notes	**1,036**	4,308
	Total interest expenses on financial liabilities not at fair value through profit or loss	**6,341**	16,783
b)	Other items		
	Cost of inventories #	**271,919**	208,773
	Staff costs (including directors' remuneration) #	**6,420**	5,392
	Depreciation of property, plant and equipment #	**21,810**	12,997
	Amortisation of leasehold land and rental prepayments	**10,008**	9,046
	Net exchange loss	**4,436**	182
	Operating lease charges in respect of land and buildings	**1,231**	723
	Fair value loss on financial liabilities at fair value through profit or loss	**18,890**	19,166

\# Cost of inventories includes staff costs of approximately RMB3,079,716 (2007: approximately RMB2,762,000) and depreciation expenses of approximately RMB20,860,605 (2007: approximately RMB12,247,000) that have also been included in the respective total amounts disclosed separately above.

6. INCOME TAX

a) Tax in the condensed consolidated income statement represents:

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
Mainland China enterprise income tax for the period	**47,444**	39,496
Deferred tax		
Origination and reversal of temporary differences	**(106)**	(456)
	47,338	39,040

Note:

i) Overseas income tax

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

ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group had no estimated assessable profits arising in or derived from Hong Kong (2007: Nil).

iii) Mainland China enterprise income tax

Fuqing Longyu Food Development Co., Ltd., 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 25%.

Hence, the mainland China enterprise income tax for the six months ended 30 June 2008 presented was at the rate of 25% (2007: 24%) on the estimated assessable profit.

b) Taxation in the condensed consolidated balance sheet represents:

	At 30 June 2008	At 31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Mainland China enterprise income tax	**26,566**	13,805

6. INCOME TAX (continued)

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

	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
Balance brought forward	1,022	3,391
Credited to consolidated income statement	(106)	(17)
Deferred tax effect on equity component	(530)	(2,103)
Exchange difference	(56)	(249)
	330	1,022

7. DIVIDENDS

a) The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

b) Dividends attributable to the financial year ended 31 December 2007, approved and paid during the period:

	For the six months ended 30 June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Final dividend paid HK$0.04 (equivalent to approximately RMB0.036) per ordinary share (2007: HK$0.045 (equivalent to approximately RMB0.044))	**43,034**	44,144

8. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share for the period ended 30 June 2008 is based on the profit attributable to shareholders of approximately RMB111,929,000 (2007: approximately RMB91,560,000) and the weighted average of 1,151,159,000 (2007: 1,000,754,000) ordinary shares in issue during the period.

b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 June 2008 is based on the profit attributable to shareholders of approximately RMB112,891,000 (2007: approximately RMB95,070,000) and the weighted average number of 1,209,237,000 (2007: 1,190,784,000) ordinary shares after adjusting for the effects of all dilutive ordinary potential shares.

8. EARNINGS PER SHARE (continued)

c) Reconciliations

	Number of shares 2008	2007
Weighted average number of ordinary shares used in calculating basic earnings per share	**1,151,159,000**	1,000,754,000
Deemed issue of ordinary shares		
– shares options	**3,766,000**	9,008,000
– warrants	**17,275,000**	39,429,000
– convertible notes	**37,037,000**	141,593,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,209,237,000**	1,190,784,000

9. ADDITION TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB15,576,000 (six months ended 30 June 2007: approximately RMB9,544,000) on the manufacturing plant and machinery in mainland China in order to enlarge its production capacities and approximately RMB4,382,000 (six months ended 30 June 2007: approximately RMB551,000) for the purchase of furniture and equipment, motor vehicles and construction in progress.

10. INVENTORIES

	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
Raw materials, at cost	**3,736**	1,551
Finished goods, at cost	**61,490**	31,551
	65,226	33,102

11. TRADE AND OTHER RECEIVABLES

The ageing analysis of trade receivables are as follows:

	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
Within 1 month	113,391	59,189
More than 1 month but within 3 months	102,901	69,602
More than 3 months but within 6 months	–	5,772
More than 6 months but within 1 year	13	166
Trade receivables, net	216,305	134,729
Less: Allowance for doubtful debts	–	(389)
	216,305	134,340
Other receivables, deposits and prepayments	75,508	32,983
	291,813	167,323

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

12. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables are as follows:

	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
Within 1 month or on demand	1,451	420
After 1 month but within 3 months	1,101	47
After 3 months but within 6 months	220	–
After 6 months	20	21
Total trade payables	2,792	488
Finance costs payables	18,222	1,954
Accruals and other payables	597	2,895
Other tax payables	12,301	12,906
Due to a director*	5,241	7,160
	39,153	25,403

* 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 expected to be settled within one year or are repayable on demand.

13. CONVERTIBLE NOTES

On 14 September 2006, the Company issued the convertible notes ("Notes") in an aggregate principal amount of HK$116,000,000 (equivalent to approximately RMB115,562,100 at 3% interest per annum payable on a semi-annual basis). Subject to certain adjustment, the 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 Notes contain two components, the liability and the equity components. The equity component is presented in the equity section heading "Equity Component Reserve". The effective interest rate of the liability component is approximately 9.2%.

The movement of the liability component of the Notes is set out below:

	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
Balance brought forward	**24,273**	
Exchange difference	**(1,346)**	(6,234)
Conversion of convertible note during the period	**–**	(69,583)
Interest charged	**1,036**	7,686
Interest paid	**–**	–
Interest payable	**(396)**	(2,585)
Balance carried forward	**23,567**	24,273

14. DERIVATIVE FINANCIAL INSTRUMENT

	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
Interest rate swap contract, at fair value	**111,302**	116,590
Less: Non-current portion	**87,622**	81,904
Current Portion	**23,680**	34,686

a) During the year 2007, 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.

14. 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 summarised 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)

* 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.

15. CAPITAL AND RESERVES

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory reserve fund RMB'000	Enterprise expansion reserve fund RMB'000	Employee share-based compensation reserve RMB'000	Equity component reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2008	58,575	269,847	41,421	74,352	10,081	8,152	8,878	16,699	595,560	1,083,565
Exercise of share option	736	11,857	–	–	–	(2,912)	–	–	–	9,681
Exercise of warrants	2,076	13,084	–	–	–	–	(3,535)	–	–	11,625
Dividend approved in respect of previous year (note 7(b))	–	–	–	–	–	–	–	–	(43,034)	(43,034)
Deferred tax effect on equity component	–	–	–	–	–	–	530	–	–	530
Exchange adjustment	–	–	–	–	–	–	–	14,711	–	14,711
Profit for the period	–	–	–	–	–	–	–	–	111,929	111,929
At 30 June 2008	61,387	294,788	41,421	74,352	10,081	5,240	5,873	31,410	664,455	1,189,007
At 1 January 2007	51,750	173,377	41,421	51,307	10,081	7,569	20,058	3,656	531,714	890,933
Exercise of share option	1,229	13,822	–	–	–	–	–	–	–	15,051
Exercise of warrants	842	5,492	–	–	–	–	(1,366)	–	–	4,968
Conversion of convertible notes	1,857	28,140	–	–	–	–	(4,589)	–	–	25,408
Dividend approved in respect of previous year (note 7(b))	–	–	–	–	–	–	–	–	(44,144)	(44,144)
Deferred tax effect on equity component	–	–	–	–	–	–	595	–	–	595
Exchange adjustment	–	–	–	–	–	–	–	(4,500)	–	(4,500)
Profit for the period	–	–	–	–	–	–	–	–	91,560	91,560
At 30 June 2007	55,678	220,831	41,421	51,307	10,081	7,569	14,698	(844)	579,130	979,871

16. COMMITMENTS

a) Capital commitments

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

	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
Acquisition of property, plant and equipment		
– contracted for but not provided for	129,381	75,383
– authorised but not contracted for	–	8,000
	129,381	83,383

b) Operating lease commitments

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

	At 30 June 2008 RMB'000 (Unaudited)	At 31 December 2007 RMB'000 (Audited)
Within 1 year	23,106	21,165
After 1 year but within 5 years	70,709	69,758
After 5 years	104,550	111,120
	198,365	202,043

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

17. WARRANTS

The Company issued the 2.5% coupon bonds (the "Bonds") with detachable warrants attached, on 10 April 2003, and all the Bonds 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.

a) Movement in warrants:

	Number of warrants	
	At 30 June 2008	At 31 December 2007
Balance brought forward	**339**	470
Exercised during the period/year	**(339)**	(131)
Balance carried forward	**–**	339

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

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

18. CONTINGENT LIABILITIES

At the balance sheet date, the Company has issued a single guarantee to a bank in respect of loan facilities granted to a subsidiary of RMB13,500,000 (2007: RMB13,500,000).

The carrying amount of the financial guarantee contract recognized in the Company's balance sheet in accordance with HKSA 39 and HKFRS 4 (Amendments) was approximately RMB17,000 (2007: approximately RMB17,000). The financial guarantee contract was eliminated on consolidation.

19. NON-ADJUSTING POST BALANCE SHEET EVENT

On 11 August 2008, a holder of the note requested the Company to redeem the remaining balance of the Notes in accordance with the terms of the subscription agreement of the Notes. Accordingly, the Company settled the total outstanding balance of the Notes together with the accrued interest amounting to HK$31,090,000 on 16 September 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2008, the Group recorded turnover and gross profit of approximately RMB478,707,000 (2007: approximately RMB386,415,000) and approximately RMB206,788,000 (2007: approximately RMB177,642,000) respectively. Profit attributable to shareholders reached approximately RMB111,929,000 (2007: approximately RMB91,560,000). The export market of the PRC's marine food was ever-changing. The Group is perpetually dedicated to put food safety at an overriding importance. Pinpointing food safety as its top priority allows the Group to continuously gain trust from customers as well as to actively expand into new markets and extend the reach of the sales network. At the same time, by new facilities establishment and capacity expansion, the Group is working diligently towards a stable growth of its revenue. During the period, the Group's total turnover represented an increase of approximately 24% as compared to the corresponding period of last year. Gross profit and profit attributable to shareholders grew by approximately 16% and approximately 22% respectively as compared to the corresponding period of 2007.

Industry Overview

The growth in the PRC export market in the first half of 2008 has been slowed down due to the instable global economy, with 21.9% increase in export year-on-year and 18% increase in marine food products export. However, with the increasing global demand for the PRC's imported food products and popularization of frozen convenient foods, the frozen convenient foods has become one of the most rapid growing and prosperous food industries. Currently, the annual consumption per capita of frozen food in developed countries was over 50kg in general, with an annual growth of 30%. The global total production volume of frozen foods was over 60,000,000 tons, while the annual production of the PRC's frozen foods was approximately 10,000,000 tons, giving the annual consumption per capita was only 7kg, representing a massive room for development of the frozen food market in the PRC.

The export food of the PRC is superior in quality, maintaining a tremendous passing rate of over 99%. In 2007, the passing rate of the PRC's export foods to the US, European Union and Japan were 99.1%, 99.8% and 99.42% respectively. Japan and the US are the major export markets of the Group. In 2007, the market scale of Japanese frozen foods was 1,012.4 billion Japanese Yen, while the frozen foods imported from China was 156.2 billion Japanese Yen which accounted for 50% of the total import volume. China is the world's largest marine food exporting country. In the first half of 2008, the total production volume of marine food products was 20,290,000 tons, representing an increase of 3.5% as compared to the corresponding period of last year. According to the statistics of the China Customs, in the first half of 2008, export volume of the PRC's marine food products was 1,386,000 tons with the export amount of US$4,610,000,000, representing an increase of 18.1% and 3.4% respectively year-on-year. Fujian Province is one of the top six largest marine food exporting provinces in the PRC, with total production volume of 2,583,200 tons during the period under review, an increase of 137,100 tons year-on-year.

Business review

(1) Frozen Marine Food Products

During the period under review, turnover generated from frozen marine food products was approximately RMB192,233,000 (2007: approximately RMB163,189,000), accounted for approximately 40% of the Group's total turnover (2007: approximately 42%), representing an increase of approximately 18% as compared to the corresponding period in 2007. The persistent increase in the turnover of frozen marine food products was attributable to the selling price increment of approximately 10% for certain marine food products, including shellfish products, flying fish roes and monkfish liver, enabling the Group to offset the cost pressure. In addition, the Group emphasized to expand production capacity on squid and tuna products with higher gross profit margin in 2008, of which squid series achieved 260 tons in terms of sales volume, which increased by 4 times over the same period of last year. The Group's leased farm base guaranteed stable costs of raw materials to best cater for the production needs. The Group's superior quality products not only secure the customers' long-term trustworthiness, but also increase the customers' loyalty to the Group's brand and products.

(2) Frozen Functional Food Products

Turnover generated from frozen functional food products was approximately RMB267,540,000 (2007: approximately RMB210,560,000), accounted for approximately 56% of the Group's total turnover (2007: approximately 54%), representing an increase of approximately 27% over the corresponding period in 2007. The demand for frozen marine food in Russia was growing over 17% year-on-year, with an annual growth rate of 35% in high-end marine food products, including octopus, squid, mussel, shrimp, sea-eel and flying fish roes. During the period under review, the Group's high-quality flying fish roes and algae products had successfully tapped into Russian market and were well-received by Russian consumers with the sales recorded approximately 203 tons.

The Group is committed to carry out stringent quality control on roasted eel products. In June 2008, the Group represented the roasted eel industry in Fujian and was invited by the US Food and Drug Administration for inspection, and successfully passed the results namely "Zero Failure". The Group's roasted eel products have not been detained by overseas inspection and testing organizations with the reasons of unqualified products since its inception. Hence, the Group was accredited the "Exemption of Inspection" qualification, while there are only 10 qualified enterprises in Fujian region. The Group's roasted eel products are also well-recognized in Japan market, enabling the selling price can be higher than the same types of products. Besides, during the period under review, the Group made best efforts in promoting sea-eel products and the sales volume of sea-eel products increased 14% year-on-year.

(3) Seasoned Convenient Food Products

During the period under review, turnover generated from seasoned convenient food products was approximately RMB16,571,000 (2007: approximately RMB12,666,000), accounted for approximately 3% of the Group's total turnover (2007: approximately 3%), raised approximately 31% as compared to the same period of last year. During the period under review, sales volume of high-temperature seasoned convenient foods reached approximately 700 tons, representing an increase of approximately 25% year-on-year. In May 2008, the Group started to supply organic rice from the leased rice crop base in Heilongjiang. The sales order of convenient rice products is recorded an approximately 25% increase as compared to 2007. Organic rice crop grows in a non-polluted environment and manures with organic fertilizer, free of chemical drugs. Given such significant strategies, the Group is able to encounter the environmental ramparts from international market.

(4) Retail Shop

During the period under review, turnover generated from the Group's retail shops was approximately RMB7,448,000 (2007: Nil).

The Group's two retail shops in Shanghai have successfully established the brand image in the region since its inception for a year. With superior products and comprehensive after-sales service, the retail shops are highly recognized by customers, and thus, constantly boosting the sales of retail shops. The Group's third retail shop was leased and already operated in August 2008. It is located in Yalong International Plaza, 500 Jinling Road East, Huangpu District, where is in close proximity to certain renowned business centres (such as Shanghai Times Square, Hong Kong Plaza and Raffles City) with strong potential of consumption power.

In May 2008, the Group and a marketing company in Shanghai entered into an agreement, which the marketing company will be the consultant of the Group and responsible for the formulation and implementation of marketing strategies, design of business model, as well as the establishment of a sophisticated sales team. Currently, the consultant completed the first stage of R&D project, while the second stage of the design of business model and marketing strategies is in progress. To better promote the image of retail shop, the Group changed the name of retail shop from "UBI" to "HI-SEAFOOD", which was successfully registered with the National Trademark Registry. The Group will revamp the whole image of retail shops as well.

Application of Brand New Processing Techniques

The Group is dedicated to focus on R&D of new products with the active application of national and foreign advanced technique. In the meantime, the Group intensively co-operates with certain scientific research institutions to ensure its technology standard reaching the international level. During the period under review, the Group purchased a new processing technique for frozen marine food product from the Food Study Centre of Fujian Agriculture and Forestry University. The application of such technique enables the Group to better control the quality of products, upgrades its production efficiency and techniques, as well as prolongs product expiry period, which is capable for intensive processing hence, enhancing the product value and boosting the sales. Currently, such technique is still under testing in certain PRC's scientific research institutions. The Group and the Food Study Centre of Fujian Agriculture and Forestry University are the pioneers in applying such technology and non-thermal sterilization facility among the peers, which greatly enhanced the standard of the Group's techniques in food processing.

PROSPECTS

Looking forward, the Group will continue to apply advanced production facilities, further expand production capacity, enlarge product structure, as well as to expedite the pace of launching retail shops to strengthen the product competitiveness with an aim to consolidate its leading position in the PRC.

To Build Processing Plant for New Products

To cope with the Group's long-term development, a new standardised plant will be set up in Fuqing. Currently, the Group is hiring a professional consultant who has completed pre-geological prospecting while the planning and design of plant, and the application for approval from governmental authorities are in progress. In the meantime, the Group is now arranging the land formation and construction of enclosure. The planning and design of plant, together with the application for approval from governmental authorities, are anticipated to be completed in the second half of 2008. The construction work is expected to be commenced by the end of this year.

To Upgrade Production Facilities

The Group endeavors to improve the energy saving facility in old frozen storage warehouse and apply the latest energy-saving frozen facility. Such facility equips with effective and speedy cooling function which is capable to guarantee the product quality and effectively saves for more than 15% energy. Besides, to advance automation of marine food products production and its integrated rate of end product, the Group purchased the machinery which has been in use in July 2008.

To Launch "HI-SEAFOOD" Retail Shops

The Group will expedite the pace of launching "HI-SEAFOOD" retail shop in the second half of this year and plan to set up three to four retail shops in Shanghai, with a target to launch six to seven new retail shops in total by the end of this year. The brand of "HI-SEAFOOD" (「海滋海味」) was successfully registered with the National Trademark Registry. Self-owned products pack with "HI-SEAFOOD" label, the outsourcing and joint-developed products pack with "UBI" label are also available in the retail shop. With the adjustment in marketing strategies and positioning, the product image will be greatly enhanced. In addition, the brand new image of "HI-SEAFOOD" retail shop operated in August 2008, with large varieties of frozen marine food products, seasoned products and a series of condiment available for customers. The expansion of retail shop will greatly strengthen the capability of anti-risk and bargaining power. The Group is devoted to establish a national retail shop with mid-to-high end convenient marine food products namely "1/2 kitchen" and "Home Meal Replacement", as well as to establish the "The PRC Renowned Brand in Marine Food Products".

To Explore New Profit Momentum

The marketing and pre-sale of the Group's self-developed high-temperature pouch clam soup have been completed. Two new automated food processing production lines had been installed last year, which is mainly used for producing high-temperature pouch clam soup. The Group is ready for accepting customers' order of approximately 20 tons in terms of volume in the coming half year. Leveraging on the Group's advanced techniques on shellfish processing, the abundant shellfish resources along Fujian coastal region, together with its production strengths, the high-temperature pouch clam soup products will be the Group's new profit momentum.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2008, the Group's total bank borrowings were approximately RMB225,246,000 (2007: approximately RMB266,976,000). The balance comprised three 3-year term loans and revolving term loans. The aggregate outstanding balance of three 3-year term loans was approximately RMB164,266,000 (2007: approximately RMB207,872,000). They are subject to floating rates on 1.75%, 2% and 2% over 3-month HIBOR rate respectively. The total outstanding balances of revolving term loans amounted to approximately RMB60,980,000 (2007: approximately RMB59,104,000). The revolving term loans of RMB47,480,000 from Hong Kong bankers were charged at 2.5% 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 7.47% and 7.29% per annum.

The Group had issued convertible notes (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 the Notes is 5 years. During the period under review, no holders of the Notes exercised the conversion rights attached to the Notes. The conversion price is subject to adjustments contained in the subscription agreement, if necessary. As at 30 June 2008, the amortized cost of the Notes of approximately RMB23,567,000 (2007: approximately RMB24,273,000) was stated as outstanding liability.

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.

The floating coupon payment, except for the first coupon payment 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 30 June 2008, the mark-to market value of the Swap was RMB111,302,000.

The Group had completely redeemed the coupon bonds. The detachable warrants issued under the same coupon bonds subscription agreement dated 28 March 2003 were scheduled to be due on 9 April 2008. As at 30 June 2008, 339 outstanding warrants have been all exercised at an adjusted exercise price of HK$0.28 (approximately RMB0.27).

As at 30 June 2008, the Group has a gearing ratio of 15% (2007: 19%). 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	66%
After 1 year but within 5 years	34%

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

Treasury Policy

As at 30 June 2008, the Group had cash and cash equivalents of approximately RMB792,886,000 (2007: approximately RMB724,683,000). The Group had deposited the money in banks in the PRC and licensed banks in Hong Kong. The purposes of the Group's cash management are to give more flexibility to meet its working capital requirements and to fund its capital expenditures.

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

Employees and Remuneration Policy

As at 30 June 2008, the Group had approximately 500 employees (2007: approximately 670 employees). The Group's employees are paid at fixed remuneration. Full-time staff in Hong Kong office are qualified for Hong Kong Mandatory Provident Fund and staff in the PRC wholly-owned subsidiary are vested in the Group's contribution to the state sponsored retirement plan.

During the period under review, the total staff costs of the Group were approximately RMB6,420,000 (2007: approximately RMB5,392,000).

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

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

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

For the period ended 30 June 2008, the Group had conducted its business transactions principally in US dollars and Renminbi. The Group did not experience any material difficulties or negative effects on its operations as a result of fluctuations in currency exchange rates. In this respect, the Group would continue to monitor the foreign exchange exposure and would take prudent measures as deemed appropriate.

SIGNIFICANT INVESTMENT AND ACQUISITION

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

CAPITAL COMMITMENT

As at 30 June 2008, in respect of assets acquisition, the Group had the transactions of contracted for but not provided for and authorized but not contracted for which amounted to approximately RMB129,381,000 (2007: approximately RMB75,383,000) and Nil (2007: approximately RMB8,000,000) respectively.

CHARGES ON ASSETS

As at 30 June 2008, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2008, the Group had the contingent liabilities in respect of banking facilities utilized by a wholly owned subsidiary of the Company and guaranteed by the Company amounted to RMB13,500,000 (2007: RMB13,500,000).

POST BALANCE SHEET EVENT

On 11 August 2008, a holder of the Notes requested the Company to redeem the remaining balance of the Notes in accordance with the terms of the subscription agreement of the Notes. Accordingly, the Company settled the total outstanding balance of the Notes together with the accrued interest amounting to HK$31,090,000 on 16 September 2008.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2008, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares of the Company

	Number of ordinary shares				Approximately percentage
Name of Director	Personal interests	Family interests	Corporate interests	Total	of issued share capital
Yeung Chung Lung	–	–	415,090,000 (Note)	415,090,000	35.00%

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

Long positions in underlying shares of the Company

Share Options in the Company

Name of Director	Date of grant	Exercise price HK$	Exercisable period	No. of shares in respect of options outstanding as at 30 June 2008
Yip Tze Wai, Albert	23/07/2004	0.489	23/07/2004-22/07/2014	202,000
	28/04/2006	0.690	28/04/2006-27/04/2016	1,000,000
Leung Chiu Shing	28/04/2006	0.690	28/04/2006-27/04/2016	500,000

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2008, so far as is known to the Directors, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Approximately percentage of issued share capital
Regal Splendid Limited (Note 1)	Beneficial owner	415,090,000	35.00%
UBS AG	Beneficial owner	375,000	
	Person having a security interest in shares	129,915,000	
		130,290,000	10.99%
Crosby Capital Partners Inc. (Note 2)	Corporation	101,720,000	9.07%
Crosby Asset Management (Holdings) Limited (Note 3)	Corporation	101,720,000	9.07%
Crosby Asset Management Limited (Note 4)	Corporation	101,720,000	9.07%
Crosby Asset Management (Singapore) Limited (Note 5)	Corporation	101,720,000	9.07%
Crosby Active Opportunities Feeder Fund Limited (Note 6)	Corporation	101,720,000	9.07%
Crosby Active Opportunities Master Fund Limited (Note 6)	Beneficial owner	101,720,000	9.07%
Techpacific Capital Limited (Note 2)	Corporation	101,720,000	9.07%
Allianz SE (Note 7)	Corporation	80,845,000	6.82%

Name	Capacity	Number of ordinary shares	Approximately percentage of issued share capital
Allianz Fianzbeteiligungs GmbH (Note 7)	Corporation	80,845,000	6.82%
Dresdner Bank Aktiengesellschaft (Note 8)	Corporation	80,845,000	6.82%
Dresdner Bank Luxembourg S.A. (Note 9)	Corporation	80,845,000	6.82%
Veer Palthe Voute NV (Note 10)	Investment manager	80,845,000	6.82%
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 incorporated 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 incorporated 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 SFP Asia Fund L.P.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

SHARE OPTION SCHEME

On 4 June 2004, a share option scheme (the "Scheme") has been adopted by the Company, the principal terms of which were set out in the Company's Annual Report 2007.

As at 30 June 2008, particulars of the options granted to the participants under the Scheme were as follows:

	Number of Shares in respect of Options							
Name or Category of participant	**Balance as at 1 January 2008**	**Granted during the period**	**Exercised during the period**	**Outstanding as at 30 June 2008** (Note 1)	**Date of grant**	**Exercisable period**	**Exercise price per share** HK$	**Weighted average closing price** (Note 2) HK$
Directors:								
Yang Le	2,000,000	–	(2,000,000)	–	23/07/2004	23/07/2004 – 22/07/2014	0.489	0.83
	5,000,000	–	(5,000,000)	–	28/04/2006	28/04/2006 – 27/04/2016	0.690	0.83
Ni Chao Peng	5,000,000	–	(5,000,000)	–	28/04/2006	28/04/2006 – 27/04/2016	0.690	0.83
Yip Tze Wai, Albert	202,000	–	–	202,000	23/07/2004	23/07/2004 – 22/07/2014	0.489	–
	1,000,000	–	–	1,000,000	28/04/2006	28/04/2006 – 27/04/2016	0.690	–
Leung Chiu Shing	500,000	–	–	500,000	28/04/2006	28/04/2006 – 27/04/2016	0.690	–
Employees:								
In aggregate	4,700,000	–	(4,700,000)	–	27/04/2006	27/04/2006 – 26/04/2016	0.662	0.85
	20,000,000	–	–	20,000,000	09/10/2007	09/10/2007 – 08/10/2017	1.050	–
Total	38,402,000	–	(16,700,000)	21,702,000				

Notes:

1. No options have been granted, cancelled or lapsed during the six months period ended 30 June 2008.

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 16,700,000 options were exercised at exercise prices ranged from HK$0.489 to HK$0.690 during the six months period ended 30 June 2008, the weighted average closing price of the share immediately before the dates on which the options were exercised was approximately HK$0.836.

CONVERTIBLE NOTES DUE 2011

On 14 September 2006, the Company issued the convertible notes in an aggregate principal amount of HK$116,000,000 (equivalent to approximately RMB115,562,100 with 3% interest per annum and is payable on a semi-annual basis). Subject to certain 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.

COUPON BONDS WITH DETACHABLE WARRANTS ATTACHED

The 2.5% coupon bonds (the “Bonds”) with detachable warrants attached, were issued on 10 April 2003. Each bond was in the denomination of US$5,000 with a warrant attached. On 31 July 2006, the Company redeemed all the Bonds outstanding. During the period under review, all the warrants were exercised and no warrant were remained outstanding as at 30 June 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

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

As at 30 June 2008, the outstanding amount owed by the Company in respect of this loan facility was approximately HK$144,656,000 (approximately equivalent to RMB127,427,000).

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code provisions in Code of Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had compiled with the required standards as set out in the Model Code during the six months ended 30 June 2008.

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 to advise the Board on the remuneration policy and framework of the Company's directors and senior management, as well as review and determine the remuneration of all executive directors and senior management with reference to the Company's objectives from time to time.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the Company, namely, Mr. Wong Chi Keung (chairman), Mr. Lu Ze Jian and Mr. Leung Chiu Shing. The audit committee is responsible for reviewing the Company's accounting principles and practices adopted by the Group and discussing auditing, internal control and financial reporting matters with the management. The unaudited interim financial statements of the Company for the six months ended 30 June 2008 have been reviewed by the audit committee of the Company.

APPRECIATION

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

On behalf of the Board
Yeung Chung Lung
Chairman

Hong Kong, 18 September 2008