FIRST NATURAL FOODS HOLDINGS LIMITED

(Provisional Liquidators Appointed)

第一天然食品有限公司*

（已委任臨時清盤人）

(Incorporated in Bermuda with limited liability)

(Stock Code: 01076)

Annual Report 2008

* *for identification purpose only*

Contents

Corporate Information

JOINT AND SEVERAL PROVISIONAL LIQUIDATORS

LIU Yiu Keung, Stephen
(appointed by the High Court of the HKSAR on 6 January 2009)
YEN Ching Wai, David
(appointed by the High Court of the HKSAR on 6 January 2009)

BOARD OF DIRECTORS

Executive Directors

LEE Wa Lun, Warren *(appointed on 22 December 2008)*
NI Chao Peng *(resigned on 12 December 2008)*
YANG Le *(Chief Executive Officer, resigned on 12 December 2008)*
YEUNG Chung Lung *(Chairman, vacated on 27 August 2009)*
YIP Tze Wai, Albert *(resigned on 17 December 2008)*

Independent Non-executive Directors

LEUNG Chiu Shing *(resigned on 17 December 2008)*
LEUNG King Yue, Alex *(appointed on 17 December 2008)*
LO Wai On *(appointed on 22 December 2008)*
LU Ze Jian *(resigned on 12 December 2008)*
TANG Chi Chung, Matthew *(appointed on 19 December 2008)*
WONG Chi Keung *(appointed on 26 November 2007 and re-designated as Chairman on 9 October 2009)*

PRINCIPAL REGISTRAR

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

AUDITOR

ANDA CPA Limited

LEGAL ADVISERS

as to Hong Kong law
P. C. Woo & Co.

as to Bermuda law
Conyers Dill & Pearman

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Corporate Information (Continued)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Room 2501, 25/F, China Online Centre
No. 333 Lockhart Road, Wanchai
Hong Kong

PRINCIPAL BANKERS (BEFORE APPOINTMENT OF THE JOINT AND SEVERAL PROVISIONAL LIQUIDATORS)

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

WEBSITE

http://www.equitynet.com.hk/1076

STOCK CODE

01076

Report of the Directors

The board (the "Board") of directors (the "Directors") of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the "Company") herein present its report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

BUSINESS REVIEW

The Company is an investment holding company. The Company, through its major subsidiaries, is principally engaged in the food manufacturing and trading industry mainly including frozen marine and functional food products.

Trading in the shares of the Company (the "Shares") has been suspended since 9:30 a.m. on 15 December 2008 at the request of the Company.

For the year ended 31 December 2008, the Group recorded turnover and gross profit of approximately RMB478,707,000 (2007: approximately RMB739,484,000) and approximately RMB206,788,000 (2007: approximately RMB334,215,000) respectively. Loss attributable to the Shareholders was approximately RMB1,441,785,000 (2007: profit of approximately RMB131,035,000). The Group's total turnover represented a decrease of 35.26% as compared to 2007, while gross profit dropped by approximately 38.13%.

After the suspension, the whereabouts of Mr. Yeung Chung Lung ("Mr. Yeung"), the former executive Director and chairman, and Mr. Yang Le ("Mr. Yang"), a former executive Director, could not be confirmed. Given that the Board had difficulties in exercising the authority and control of the Company over some of its subsidiaries, the Board considered that, for the benefit of the creditors and the shareholders of the Company (the "Shareholders") as a whole, it was appropriate and necessary to appoint provisional liquidators to preserve the Company's assets and investigate into the affairs and financial condition of the Group.

On 6 January 2009, a winding-up petition (the "Petition") and the application for the appointment of the provisional liquidators were presented to and filed with the High Court of the Hong Kong Special Administrative Region (the "Court") by the Company. On the same day, Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai were appointed as the joint and several provisional liquidators of the Company (the "Provisional Liquidators") by the Court. The Petition was filed with the Court on 7 January 2009 to effect the appointment. As such, the Provisional Liquidators do not have the same knowledge of the financial affairs of the Group as the Board would have, particularly in relation to the transactions entered into by the Group prior to their appointment date and the Board has been assisting the Provisional Liquidators to ascertain the Group's financial position since then.

The Provisional Liquidators have been investigating into the affairs of the Group and have taken all necessary actions to preserve the assets and to assess the situation of the subsidiaries in the People's Republic of China (the "PRC"). However, without the assistance of the former Directors, Mr. Yeung and Mr. Yang, who were the legal representatives of the subsidiaries in the PRC, the Provisional Liquidators would not be able to proceed the same. As such, legal actions have been taken against Mr. Yeung and Mr. Yang in respective regions in the PRC for the possible damages to the Group resulting from their illegal possessions of the properties of the subsidiaries in the PRC, including but not limited to, the company chops and statutory certificates of the subsidiaries in the PRC. The status of the court cases as at today is as follows:

BUSINESS REVIEW (CONTINUED)

(i) Fuqing Longyu Food Development Co., Limited ("Fuqing Longyu")

The Fuzhou Intermediate People's Court (福州市中級人民法院) of Fujian Province, the PRC (the "Fuzhou Court") issued a judgment letter dated 28 July 2009 (the "Judgment Letter") in the Provisional Liquidators' favour with regard to the replacements of Fuqing Longyu's legal representative and board of directors. On 2 September 2009, Mr. Yeung filed an appeal against the decisions of the Judgment Letter. The hearing for the appeal lodged by Mr. Yeung was heard on 19 November 2009 at the Higher People's Court of Fujian Province (福建省高級人民法院). On 18 January 2010, the Provisional Liquidators were informed by the PRC legal adviser that the final decision for the appeal had been handed down on 21 December 2009 which upheld the Judgment Letter. The Provisional Liquidators are taking steps to enforce the final decision.

(ii) Jia Jing Commercial (Shanghai) Co., Limited ("Jia Jing (Shanghai)")

On 3 September 2009, the case had been accepted by the People's Court of Pudong New District in Shanghai (the "Pudong Court"). The first and second hearings were heard on 14 October 2009 and 22 December 2009 at which no representatives of nor did Mr. Yang himself attend. Jia Jing (Shanghai), being the plaintiff in the aforesaid legal proceeding, is awaiting a judgment to be granted from the Pudong Court.

(iii) Ningbo Dingwei Food Development Co., Limited ("Ningbo Dingwei")

First China Technology Limited, a subsidiary of the Company and the immediate holding company of Ningbo Dingwei, attempted to file a statement of claim with the Ningbo Intermediate People's Court of Zhejiang Province (浙江省寧波市中級人民法院) but the filing was denied by the court.

LIQUIDITY AND FINANCIAL RESOURCES

The net cash inflow from operating activities for the year was approximately RMB2,712,000 as compared to a net cash inflow of approximately RMB262,262,000 in the previous year. Cash and cash equivalents as at 31 December 2008 amounted to approximately RMB529,000 (2007: approximately RMB724,683,000). The Group's gearing ratio measured on the basis of the Group's interest bearing liabilities divided by total assets as at 31 December 2008 was not applicable as the Group had net deficiency in assets (2007: approximately 19%).

Liabilities and payables presented in the audited financial statements and this report are according to the books and records and available information to the best of our knowledge.

RISK OF FOREIGN EXCHANGE FLUCTUATION

The Group's bank borrowings, bank and cash balances, and accruals and other payables were denominated in Hong Kong dollars, US dollars and Renminbi. At such, it will be subject to reasonable exchange rate exposures. However, the Group will closely monitor this risk exposure and would take prudent measures as appropriate. The Group's borrowings bore interest at floating rates.

In April 2007, the Company entered into an interest rate swap contract (the "Swap Contract") with a notional amount of US$100,000,000 with a commercial bank. On 3 November 2008, the commercial bank served the Company with a notice of early termination and made a claim against the Company for an amount of US$15,927,075. Details are set out in notes 30 and 33 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

Other than the Directors, the Group employed 3 staff in Hong Kong as at 31 December 2008. Remuneration package is reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments, the Group also provides other employment benefits such as a provident fund.

SIGNIFICANT INVESTMENTS AND ACQUISITION

On the basis of the available books and records, the Group did not have any significant investment nor did it make any material acquisition or disposal of subsidiaries and associates throughout the year ended 31 December 2008.

RESTRUCTURING OF THE GROUP

The Provisional Liquidators appointed Asian Capital (Corporate Finance) Limited ("Asian Capital") as the financial adviser to the Company on 5 February 2009 to assist the Provisional Liquidators in identifying potential investors with a view to restructuring the Company and submitting a viable resumption proposal to The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 12 March 2009, the Stock Exchange sent a letter to the Company stating that in view of the prolonged suspension of trading in the Shares, the delisting procedures set out in Practice Note 17 to the rules governing the listing of securities on the Stock Exchange (the "Listing Rules") applied to the Company and the Company had been put into the first stage of the delisting procedures which commenced on the date of suspension. If the Company failed to submit a viable resumption proposal to address certain conditions on or before 11 September 2009, the Stock Exchange might consider to proceed to place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules.

The Provisional Liquidators and Asian Capital used their best endeavours to source for potential investors with interest in the restructuring of the Company. Consequently, the restructuring proposal of Group Will Holdings Limited (the "Investor") had been accepted by the Provisional Liquidators.

RESTRUCTURING OF THE GROUP (CONTINUED)

On 30 July 2009, an exclusivity agreement (the "Exclusivity Agreement") was entered into among the Investor, Mr. Huang Kunyan ("Mr. Huang"), the Company and the Provisional Liquidators to grant the Investor a 12-month exclusivity period to prepare a viable resumption proposal to be submitted to the Stock Exchange with a view to resuming the trading in the Shares (the "Resumption Proposal"), and to negotiate in good faith for entering into a legally binding formal agreement (the "Formal Agreement") for the implementation of the Resumption Proposal.

Pursuant to the Exclusivity Agreement, the Investor shall negotiate with the Provisional Liquidators to enter into an arrangement of working capital facility of up to HK$10 million (or such higher sum the Investor may agree from time to time) for the settlement of the trading and operating expenses as are required to carry on and maintain a viable business of the sale of food products during the course of the proposed restructuring. Such working capital facility will be secured by a debenture with charge(s) over certain assets of the Group.

Given the time constraints, the Company was unable to submit the Resumption Proposal by 11 September 2009 and the Company was placed into the second stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules on 18 September 2009.

Pursuant to the letter from the Stock Exchange on 18 September 2009, among other things, the Company is required to submit a viable Resumption Proposal within six months from the date of the letter (i.e. 10 business days before 17 March 2010) to the Stock Exchange, which should meet the following conditions:

1. demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules;

2. demonstrate that circumstances do not exist to suggest that there may be significant deficiencies in the Group's internal control system;

3. demonstrate the Company's compliance with Rule 3.08 of the Listing Rules regarding duties of the directors; and

4. withdrawal and/or dismissal of the Petition, and discharge of the Provisional Liquidators.

If no viable resumption proposal is submitted by 3 March 2010, the Stock Exchange may consider to proceed to place the Company into the third stage of the delisting procedures.

RESTRUCTURING OF THE GROUP (CONTINUED)

The Investor and the Company are currently reviewing the existing operations of the Group. The Company, with the assistance of Asian Capital and the Investor, are in the course of preparing the Resumption Proposal, and which will be submitted to the Stock Exchange as soon as practicable.

The proposed restructuring, if successfully implemented will, among others, result in:

(i) a restructuring of the share capital of the Company through capital reduction, share consolidation, share subdivision and issue of new shares;

(ii) all creditors of the Company discharging and waiving their claims against the Company by way of schemes of arrangement in Hong Kong and Bermuda as appropriate; and

(iii) resumption of trading in the Shares upon completion of the proposed restructuring subject to the restoration of sufficient public float.

The Provisional Liquidators have provided regular update on the status of the Group to the Court and suggested for the adjournment of granting the winding-up order against the Company. On 14 January 2010, the hearing of the Petition has been further adjourned to 19 July 2010.

PROSPECTS

The Provisional Liquidators have been working closely with the Investor in preparing the Resumption Proposal to be submitted to the Stock Exchange as soon as practicable.

With the strong support in the business and financial aspects from the Investor, the Group is confident to revive its existing businesses and achieve a substantial level of operations within a reasonable period of time.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 44 to the financial statements.

RESULTS AND DIVIDENDS

The loss of the Group for the year ended 31 December 2008 and the state of affairs of the Group and of the Company at that date are set out in the audited financial statements on pages 25, 26 and 88 respectively.

No interim dividend was paid (2007: Nil) and a payment of the final dividend is not proposed for the year ended 31 December 2008 (2007: approximately RMB43,034,000).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 90. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 22 to the audited financial statements.

CONTINGENT LIABILITIES

A full search of the contingent liabilities of the Group has not been conducted. Any lawsuits or winding-up petitions against the Company will be subject to the court approval and the respective claims will be subject to a formal adjudication process, dealt with and compromised under the restructuring scheme upon the completion of the restructuring with the Investor.

The Provisional Liquidators, also acting as the directors of the subsidiaries, are not aware of any potential claim against the subsidiaries as at 31 December 2008.

COMMITMENTS

Details of the commitments of the Group are set out in note 40 to the audited financial statements.

PLEDGE OF ASSETS

As at 31 December 2008, the Group did not have any charges on its assets (2007: Nil).

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 36 to the audited financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 37 to the audited financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2008, the Company did not have any reserves available for distribution.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 69% of the total sales for the year and sales to the largest customer included therein amounted to approximately 21%. Purchases from the Group's five largest suppliers accounted for approximately 41% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14%.

None of the Directors or any of their associates or shareholders (which, to the best knowledge of the Board, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive directors:

Lee Wa Lun, Warren	(appointed on 22 December 2008)
Ni Chao Peng	(resigned on 12 December 2008)
Yang Le	(Chief Executive Officer and resigned on 12 December 2008)
Yeung Chung Lung	(acted as Chairman prior to his vacation on 27 August 2009)
Yip Tze Wai, Albert	(resigned on 17 December 2008)

Independent non-executive directors:

Wong Chi Keung	(appointed on 26 November 2007 and re-designated as Chairman on 9 October 2009)
Leung Chiu Shing	(resigned on 17 December 2008)
Leung King Yue, Alex	(appointed on 17 December 2008)
Lo Wai On	(appointed on 22 December 2008)
Lu Ze Jian	(resigned on 12 December 2008)
Tang Chi Chung, Matthew	(appointed on 19 December 2008)

DIRECTORS (CONTINUED)

Mr. Wong Chi Keung ("Mr. Wong") 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.

Each of the remaining existing Board members has not entered into any service contract with the Company and has not been appointed for a specific term. Except for Mr. Wong, each of the Directors will hold office until the next general meeting of the Company and being eligible, will offer himself for re-election at that meeting pursuant to the Bye-laws of the Company. Their emoluments will be determined based on the prevailing market conditions and their roles and responsibilities.

Save as disclosed above, no Director eligible for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Vacation of the Office as Director and Re-designation of Director

Due to the fact that Mr. Yeung, the former chairman of the Board and executive Director, was absent from meetings of the Board for six consecutive months without special leave of absence from the Board, the Board meeting held on 27 August 2009 resolved that the office of Mr. Yeung as the Director has been vacated in accordance with bye-law 89(3) of the Bye-laws of the Company. Mr. Yeung's offices as the chairman and the executive Director were also vacated as a result.

Following the said vacation, the Board appointed Mr. Wong, an independent non-executive Director, as the chairman of the Company with effect from 9 October 2009. Mr. Wong has been a member and the chairman of both the audit committee and remuneration committee of the Company since 26 November 2007.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 20 to 21.

DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SECURITIES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, saved as disclosed below and other than certain nominee shares in subsidiaries held by Directors in trust for the Company, none of the Directors or chief executive of the Company had registered any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) recorded pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Long positions in the Shares:

	Number of ordinary shares				Approximate percentage of issued share capital
Name of Director	**Personal interest**	**Family interest**	**Corporate interest**	**Total**	
YEUNG Chung Lung	–	–	416,665,000 *(Note)*	416,665,000	35.13%

Note: Held through Regal Splendid Limited which is wholly-owned by Mr. Yeung, a former Director.

Long positions in underlying shares of the Company

Details of the interests of the Directors and the chief executive of the Company in underlying shares of the Company are set out in note 38 to the audited financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES

As at 31 December 2008, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the Shares:

Name of shareholder	Notes	**Capacity**	**Number of ordinary shares held**	**Approximate percentage of issued share capital**
Regal Splendid Limited	(a)	Beneficial owner	416,665,000	35.13%
UBS AG		Person having a security interest in shares	92,800,000	7.83%
Dunross Investment Ltd.	(b)	Beneficial owner	83,370,000	7.03%
Dunross International AB	(c)	Corporation	83,370,000	7.03%
Dunross & Co AB	(c)	Corporation	83,370,000	7.03%
Crosby Active Opportunities Master Fund Limited	(d)	Beneficial owner	79,370,000	6.69%
Crosby Active Opportunities Feeder Fund Limited	(e)	Corporation	79,370,000	6.69%
Crosby Asset Management (Singapore) Limited	(f)	Corporation	79,370,000	6.69%
Crosby Asset Management Limited	(g)	Corporation	79,370,000	6.69%
Crosby Asset Management (Holdings) Limited	(h)	Corporation	79,370,000	6.69%
Crosby Asset Management Inc.	(i)	Corporation	79,370,000	6.69%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES (CONTINUED)

Long positions in the Shares: (Continued)

Name of shareholder	Notes	Capacity	Number of ordinary shares held	Approximate percentage of issued share capital
The SFP Asia Master Fund Ltd.	(j)	Beneficial owner	48,945,000	4.13%
The SFP Asia Fund Ltd.	(k)	Corporation	48,945,000	4.13%
The SFP Value Realization Co. Ltd.	(l)	Corporation	48,945,000	4.13%

Notes:

(a) 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, a former Director.

(b) Dunross Investment Ltd. is a company incorporated in Cyprus which is wholly-owned by Dunross International AB.

(c) Dunross International AB is a company incorporated in Sweden which is wholly-owned by Dunross & Co AB.

(d) Crosby Active Opportunities Master Fund Limited is a company incorporated in the Cayman Islands which is wholly-owned by Crosby Active Opportunities Feeder Fund Limited.

(e) Crosby Active Opportunities Feeder Fund Limited is a company incorporated in the Cayman Islands.

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

(g) Crosby Asset Management Limited is a company incorporated in the Cayman Islands which is wholly-owned by Crosby Asset Management (Holdings) Limited.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES (CONTINUED)

Notes: (Continued)

(h) Crosby Asset Management (Holdings) Limited is a company incorporated in the Cayman Islands which is wholly owned by Crosby Asset Management Inc.

(i) Crosby Asset Management Inc. is a company incorporated in the Cayman Islands.

(j) The SFP Asia Master Fund Ltd. is a company incorporated in the Cayman Islands which is owned as to 80.2% by The SFP Asia Fund Ltd.

(k) The SFP Asia Fund Ltd. is a company incorporated in the Cayman Islands which is wholly-owned by The SFP Value Realization Co. Ltd.

(l) The SFP Value Realization Co. Ltd. is a company incorporated in the Cayman Islands.

Save as disclosed above, as at 31 December 2008, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and the Chief Executive's Interests or Short Positions in Securities, Underlying Shares and Debentures" above, had registered an interest or short position in the securities or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the headings "Share Option Scheme" below and "Directors' and the Chief Executive's Interests or Short Positions in Securities, Underlying Shares and Debentures" above, to the best knowledge of the Board, at no time during the year there were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE AND CONNECTED PARTY TRANSACTIONS

To the best knowledge of the Board, none of the Directors has a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, to the best knowledge of the Board, none of the Directors, the Shareholders and their respective associates had any interest in a business which causes or may cause a significant competition with the business of the Group or any other conflicts of interest which any such person has or may have with the Group.

MATERIAL RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 42 to the audited financial statements.

MANAGEMENT CONTRACTS

According to the available information, the Board is not aware of any contract during the year entered into with the management and administration of the whole or any substantial part of the business of the Company.

SHARE OPTION SCHEME

Details of the share option scheme of the Company and movements in share options are set out in note 38 to the audited financial statements.

CONVERTIBLE NOTES

Details of the conversion notes and conversion are set out in note 35 to the audited financial statements.

DETACHABLE WARRANTS

Details of the movements in detachable warrants are set out in note 39 to the audited financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes are set out in note 21 to the audited financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

To the best knowledge of the Board, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

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, a former Director, 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 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.

On 19 December 2008, the agent of the syndicate of banks gave notice to the Company that certain events of default have occurred and demanded immediate repayment of all outstanding monies owed by the Company.

As at 31 December 2008, the outstanding amount owed by the Company in respect of this loan facility was approximately HK$86,777,000 (approximately equivalent to RMB76,443,000).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules.

SUSPENSION OF TRADING

Trading in the Shares on the Main Board of the Stock Exchange has been suspended since 15 December 2008, and will remain suspended until further notice.

SIGNIFICANT POST-BALANCE SHEET EVENTS

Details of the significant post-balance sheet events of the Group are set out in note 43 to the audited financial statements.

CORPORATE GOVERNANCE

Mr. Wong has been an independent non-executive Director prior to his re-designation as the chairman of the Board on 9 October 2009. Mr. Wong was not involved in the management of the Company and the Group as an independent non-executive Director. Except for Mr. Wong, members of the current Board were appointed in December 2008. Consequently, the current Board are unable to comment as to whether the Company has complied with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2008.

REMUNERATION COMMITTEE

The members of the remuneration committee of the Company during the year and up to the date of this report were:

WONG Chi Keung	(Chairman)
LEUNG Chiu Shing	(resigned on 17 December 2008)
LEUNG King Yue, Alex	(appointed on 17 December 2008)
LO Wai On	(appointed on 22 December 2008)
TANG Chi Chung, Matthew	(appointed on 19 December 2008)
YEUNG Chung Lung	(vacated on 27 August 2009)
LU Ze Jian	(resigned on 12 December 2008)

The remuneration committee 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 members of the audit committee of the Company during the year and up to the date of this report were:

WONG Chi Keung	(Chairman)
LEUNG Chiu Shing	(resigned on 17 December 2008)
LEUNG King Yue, Alex	(appointed on 17 December 2008)
LU Ze Jian	(resigned on 12 December 2008)
LO Wai On	(appointed on 22 December 2008)
TANG Chi Chung, Matthew	(appointed on 19 December 2008)

AUDIT COMMITTEE (CONTINUED)

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 financial statements of the Company for the year ended 31 December 2008 have been reviewed by the audit committee of the Company.

AUDITOR

CCIF CPA Limited was the auditor for the financial statements for the three years ended 31 December 2007 and reviewed the interim financial report of the Group for the six months ended 30 June 2008. After the appointment of the Provisional Liquidators, ANDA CPA Limited was appointed the auditor of the Company.

The financial statements for the year ended 31 December 2008 were audited by ANDA CPA Limited. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
First Natural Foods Holdings Limited
(Provisional Liquidators Appointed)

Wong Chi Keung
Chairman

Hong Kong, 22 January 2010

Biographical Details of Directors

EXECUTIVE DIRECTOR

Mr. Lee Wa Lun, Warren, ("Mr. Lee") aged 46, joined the Group in December 2008. He is an executive Director. He is the managing director of SHK Hong Kong Industries Limited (formerly known as Yu Ming Investments Limited), which is listed on the Main Board of the Stock Exchange, and a director and a responsible officer of Yu Ming Investment Management Limited, which is a licensed corporation regulated by the SFO to carry out activities of dealing in securities, advising on securities, advising on corporate finance and asset management. From December 2006 to May 2007, he was the chief executive officer of Nam Tai Electronics, Inc., an electronics manufacturing services provider listed on the New York Stock Exchange. From March 2004 to February 2006, Mr. Lee was an independent non-executive director of Nam Tai Electronic & Electrical Products Limited ("NTEEP"), and from February 2006 to April 2007, he was re-designated as a non-executive director. From January 2007 to April 2007, he was also a non-executive director of J.I.C. Technology Company Limited ("JIC"). Both of NTEEP and JIC were listed on the Main Board of the Stock Exchange and subsidiaries of Nam Tai Electronics, Inc. Mr. Lee is also a non-executive chairman of Rotol Singapore Limited since November 2007. Rotol Singapore Limited is listed on the Main Board of the Singapore Exchange Limited.

Mr. Lee graduated from University of East Anglia in England in 1986 and obtained a distinction in Master of Science degree from The City University Business School in London in 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Chi Keung ("Mr. Wong"), aged 54, joined the Group in November 2007. He is the chairman of the Company and an independent non-executive Director. He 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 a responsible officer for asset management, advising on securities and corporate finance for Legend Capital Partners, Inc. under the SFO. He is currently an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Nickel Resources Holdings Company Limited, China Ting Group Holdings Limited, FU JI Food and Catering Services Holdings Limited (Provisional Liquidators Appointed), Golden Eagle Retail Group Limited, Ngai Lik Industrial Holdings Limited, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of which are listed on the Stock Exchange. Mr. Wong was formerly an independent non-executive director of Great Wall Motor Company Limited and International Entertainment Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Mr. Leung King Yue, Alex ("Mr. Leung"), aged 32, joined the Group in December 2008. He holds a bachelor degree in Commerce specialising in Economics and Finance from the University of Melbourne in Australia and is a Chartered Financial Analyst of the United States of America. He started his career in investment banking in 2000 focusing on private equity projects, corporate finance advisory, merger and acquisition transactions and listed equities. Mr. Leung then joined JK Capital Management Limited in 2003 as a portfolio manager specialising in investments in global high yield fixed income securities and listed Chinese equities. He is licensed by the SFO to carry out securities advisory, corporate finance advisory and asset management activities. He is currently a Responsible Officer of both JK Capital Management Limited and Asian Asset Management Limited. Mr. Leung has been an executive director of Apex Capital Limited since 9th March, 2007, and was an executive director of UBA Investments Limited during the period from 17th July, 2007 to 1st December, 2008. Both of the companies are listed on the Main Board of the Stock Exchange. He has been an executive director of Coolpoint Energy Limited (formerly known as GreaterChina Technology Group Limited) since 14th July, 2008, a company listed on the Growth Enterprises Market of the Stock Exchange.

Mr. Lo Wai On ("Mr. Lo"), aged 48, joined the Group in December 2008. He is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and has been practicing under the name of his own firm, W.O. Lo & Co., Certified Public Accountants (Practising) since 1986. He has broad experience in providing tax consulting and auditing services to companies including listed companies in Hong Kong. Mr. Lo is an independent non-executive director of COL Capital Limited, which is listed on the Main Board of the Stock Exchange.

Mr. Tang Chi Chung, Matthew ("Mr. Tang"), aged 49, joined the Group in December 2008. He has 20 years of extensive experience in fresh produce marketing. He started his career in fresh produce business as a business development manager of Polly Peck International (Hong Kong) Limited, the then shareholder of Del Monte Fresh Produce (HK) Limited. Between 1992 and 2002, Mr. Tang worked for a number of fresh produce marketing companies, including the position of general manager of Fresh Produce Department of Dah Chong Hong, Limited, and business development director of Del Monte Fresh Produce (HK) Limited. Since 2002, He worked for Linkage Holdings Limited developing fresh fruits and vegetables business in the People's Republic of China and overseas.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company still considers all of the independent non-executive Directors to be independent.

Independent Auditor's Report

ANDA
CPA Limited
安達會計師事務所有限公司

TO THE SHAREHOLDERS OF FIRST NATURAL FOODS HOLDINGS LIMITED (Provisional Liquidators Appointed)
第一天然食品有限公司 (已委任臨時清盤人)
(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the "Company") set out on pages 25 to 89, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and 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 (the "HKICPA") 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 and to report our opinion 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. Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. 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. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Opening balances and corresponding figures

   The consolidated financial statements of the Company for the year ended 31 December 2007 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us. There were no satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of the opening balances and corresponding figures shown in the current year's consolidated financial statements.

2. Transactions, income and expense items for the year

   No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the transactions of the Group for the year ended 31 December 2008. There are no other satisfactory audit procedures that we could adopt to satisfy ourselves that the income and expense items are properly accounted for in the consolidated income statement for the year ended 31 December 2008 and that these items are properly disclosed in the consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

3. Loss on deconsolidation of the subsidiaries and impairment on investment costs and amounts due from deconsolidated subsidiaries

   As explained in note 2 to the consolidated financial statements, certain subsidiaries of the Company were deconsolidated from the Group since 1 July 2008. No sufficient evidence has been provided to satisfy ourselves as to whether the Company had lost control of the subsidiaries since 1 July 2008. In addition, no sufficient evidence has been provided to satisfy ourselves as to the amount of net assets of the subsidiaries deconsolidated. As a result, we are unable to satisfy ourselves as to the loss on deconsolidation of the subsidiaries and the impairment on investment costs and amounts due from deconsolidated subsidiaries of approximately RMB1,470,704,000 for the year ended 31 December 2008 as disclosed in note 11 to the consolidated financial statements.

4. Other losses

   No sufficient evidence has been received by us up to the date of this report in respect of whether the other losses of approximately RMB86,756,000 were properly accounted for in the consolidated financial statements for the year ended 31 December 2008.

5. Accruals and other payables

   No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the accruals and other payables as disclosed in note 30 to the consolidated financial statements of approximately RMB172,455,000 as at 31 December 2008.

6. Financial guarantee liabilities

   No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the financial guarantee liabilities as disclosed in note 32 to the consolidated financial statements of RMB13,500,000 as at 31 December 2008.

7. Commitments and contingent liabilities

   No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities as at 31 December 2008.

8. Related party transactions and balances

   No sufficient evidence has been provided to satisfy ourselves as to the existence, accuracy and completeness of the disclosures of the related party transactions and balances for the year ended 31 December 2008 as required by Hong Kong Accounting Standard 24 "Related Party Disclosures".

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

9. Other disclosures in the consolidated financial statements

   No sufficient evidence has been provided to satisfy ourselves as to the accuracy and completeness of the disclosures in relation to the additions of the property, plant and equipment as disclosed in notes 9 and 22 to the consolidated financial statements.

   Any adjustments to the figures as described from points 1 to 9 above might have a significant consequential effect on the Group's results for the two years ended 31 December 2007 and 2008, the Group's cash flows for the two years ended 31 December 2007 and 2008 and the financial positions of the Group as at 31 December 2007 and 2008, and the related disclosures thereof in the consolidated financial statements.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that a proposal for the resumption of trading in the Company's shares and the restructuring of the Group (the "Resumption Proposal") will be submitted to The Stock Exchange of Hong Kong Limited on as soon as practicable.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong, 22 January 2010

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	**2008 RMB'000**	2007 RMB'000
Turnover	7	**478,707**	739,484
Cost of sales		**(271,919)**	(405,269)
Gross profit		**206,788**	334,215
Other income	8	**6,877**	14,102
Selling expenses		**(5,625)**	(5,268)
Administrative expenses		**(23,512)**	(39,816)
Other operating expenses	10	**(8,796)**	(15,099)
Gain/(loss) arising from a change in fair value of a derivative financial instrument		**1,001**	(51,290)
Profit from operations		**176,733**	236,844
Loss on deconsolidation of the subsidiaries and impairment on investment costs and amounts due from deconsolidated subsidiaries	11	**(1,470,704)**	–
Other losses	12	**(86,756)**	–
Finance costs	13	**(13,614)**	(32,890)
(Loss)/profit before tax	14	**(1,394,341)**	203,954
Income tax expense	15	**(47,444)**	(72,919)
(Loss)/profit for the year attributable to equity holders of the Company	18	**(1,441,785)**	131,035
Dividends	19	**–**	43,034
(Loss)/earnings per share	20		
Basic (RMB cents per share)		**(126.83)**	12.60
Diluted (RMB cents per share)		**(126.83)**	11.98

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	22	**34**	414,921
Leasehold land and rental prepayments	23	**–**	32,727
Deferred tax assets	34	**233**	779
		267	448,427
Current assets			
Leasehold land and rental prepayments	23	**–**	18,566
Inventories	24	**–**	33,102
Trade receivables	25	**–**	134,340
Prepayments, deposits and other receivables	26	**609**	32,983
Financial assets designated at fair value	27	**–**	18,652
Bank deposits with original maturities over three months		**–**	132,327
Bank and cash balances	28	**529**	724,683
		1,138	1,094,653
Current liabilities			
Trade payables	29	**–**	488
Accruals and other payables	30	**172,455**	24,915
Bank borrowings	31	**184,634**	161,585
Financial guarantee liabilities	32	**13,500**	–
Derivative financial instrument	33	**–**	34,686
Provision for staff welfare benefit		**–**	11,446
Current tax liabilities		**–**	13,805
		370,589	246,925
Net current (liabilities)/assets		**(369,451)**	847,728
Total assets less current liabilities		**(369,184)**	1,296,155
Non-current liabilities			
Bank borrowings	31	**–**	105,391
Derivative financial instrument	33	**–**	81,904
Deferred tax liabilities	34	**–**	1,022
Convertible notes	35	**–**	24,273
		–	212,590
NET (LIABILITIES)/ASSETS		**(369,184)**	1,083,565
Capital and reserves			
Share capital	36	**61,387**	58,575
Reserves	37	**(430,571)**	1,024,990
TOTAL EQUITY		**(369,184)**	1,083,565

Approved by:

Stephen Liu Yiu Keung
David Yen Ching Wai
Joint and Several Provisional Liquidators
who act without personal liabilities

Wong Chi Keung
Chairman

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	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	Foreign currency translation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2007	51,750	174,229	41,421	51,307	10,081	6,717	20,058	3,656	531,714	890,933
Translation difference	–	–	–	–	–	–	–	13,043	–	13,043
Net income recognised directly in equity	–	–	–	–	–	–	–	13,043	–	13,043
Profit for the year	–	–	–	–	–	–	–	–	131,035	131,035
Total recognised income and expense for the year	–	–	–	–	–	–	–	13,043	131,035	144,078
Transfer	–	–	–	23,045	–	–	–	–	(23,045)	–
Purchase of own shares	(154)	(3,274)	–	–	–	–	–	–	–	(3,428)
Shares issued upon exercise of share options	1,186	16,850	–	–	–	(3,507)	–	–	–	14,529
Shares issued upon exercise of warrants	842	5,493	–	–	–	–	(1,366)	–	–	4,969
Equity settled share-based payment	–	–	–	–	–	4,942	–	–	–	4,942
Deferred tax effect on equity component (note 34)	–	–	–	–	–	–	2,103	–	–	2,103
Conversion of convertible notes	4,951	76,549	–	–	–	–	(11,917)	–	–	69,583
Dividend approved in respect of previous year (note 19)	–	–	–	–	–	–	–	–	(44,144)	(44,144)
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
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**
Translation difference	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,107**	**–**	**16,107**
Net income recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,107**	**–**	**16,107**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,441,785)**	**(1,441,785)**
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,107**	**(1,441,785)**	**(1,425,678)**
Shares issued upon exercise of share options	**736**	**11,857**	**–**	**–**	**–**	**(2,912)**	**–**	**–**	**–**	**9,681**
Shares issued upon exercise of warrants	**2,076**	**13,084**	**–**	**–**	**–**	**–**	**(3,535)**	**–**	**–**	**11,625**
Deferred tax effect on equity component (note 34)	**–**	**–**	**–**	**–**	**–**	**–**	**964**	**–**	**–**	**964**
Redemption of convertible notes	**–**	**–**	**–**	**–**	**–**	**–**	**(6,307)**	**–**	**–**	**(6,307)**
Equity settled share-based payment	**–**	**5,240**	**–**	**–**	**–**	**(5,240)**	**–**	**–**	**–**	**–**
Dividend approved in respect of previous year (note 19)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(43,034)**	**(43,034)**
Transfer arising from deconsolidation of subsidiaries	**–**	**–**	**–**	**(74,352)**	**(10,081)**	**–**	**–**	**–**	**84,433**	**–**
At 31 December 2008	**61,387**	**300,028**	**41,421**	**–**	**–**	**–**	**–**	**32,806**	**(804,826)**	**(369,184)**

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
(Loss)/profit before tax		**(1,394,341)**	203,954
Adjustments for:			
Depreciation	14 & 22	**21,965**	29,297
Amortisation of leasehold land and rental prepayments	14	**9,783**	18,899
Loss on disposal of property, plant and equipment	14	**–**	27
Allowance for doubtful debts	14	**–**	389
Employee share-based payment	14	**–**	4,942
(Gain)/loss arising from a change in fair value of derivative financial instrument		**(1,001)**	51,290
Loss on deconsolidation of subsidiaries	11	**860,372**	–
Impairment on investment costs in the deconsolidated subsidiaries	11	**192,967**	–
Impairment on amounts due from the deconsolidated subsidiaries	11	**417,365**	–
Impairment on interest receivables		**2,769**	–
Loss on bank deposits	12	**73,256**	–
Loss on recognition of financial guarantee liabilities	12	**13,500**	–
Finance costs	13	**13,614**	32,890
Interest income	8	**(5,103)**	(13,759)
Operating cash flows before working capital changes		**205,146**	327,929
Change in inventories		**(32,124)**	(6,334)
Change in trade receivables		**(81,965)**	–
Change in prepayments, deposits and other receivables		**(42,598)**	31,059
Change in trade payables		**2,304**	(16,511)
Change in accruals and other payables		**(1,130)**	–
Change in provision for staff welfare benefit		**(579)**	(1,542)
Change in due from deconsolidated subsidiaries		**(11,659)**	–
Cash generated from operations		**37,395**	334,601
Tax paid – Mainland China enterprise income tax paid		**(34,683)**	(72,339)
Net cash generated from operating activities		**2,712**	262,262

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from investing activities			
Interest received		**5,103**	13,759
Proceeds on disposal of property, plant and equipment		**–**	2
Purchase of property, plant and equipment		**(19,983)**	(201,923)
Purchase of intangible assets		**(15,000)**	–
Payment for rental prepayments		**(352)**	(33,000)
Decrease in time deposits with original maturities over three months		**132,327**	37,031
Payment for the acquisition of financial assets designated at fair value		**–**	(18,652)
Receipt upon maturity of financial assets designated at fair value		**18,652**	–
Loss on bank deposits	12	**(73,256)**	–
Deconsolidation of subsidiaries	11	**(701,243)**	–
Net cash used in investing activities		**(653,752)**	(202,783)
Cash flows from financing activities			
Proceeds from issuance of share capital		**21,306**	19,498
Interest paid		**(13,467)**	(28,992)
Dividend paid		**(43,034)**	(44,144)
Repayments of borrowings		**(129,001)**	(51,173)
New bank loans raised		**72,575**	32,152
Increase in amount due to a director		**52,021**	4,325
Upfront payment from new derivative financial instrument		**–**	72,556
Payment for loss on derivative financial instrument		**–**	(7,256)
Payment for repurchase of shares		**–**	(3,428)
Redemption of convertible notes		**(26,344)**	–
Net cash used in financing activities		**(65,944)**	(6,462)
Net (decrease)/increase in cash and cash equivalents		**(716,984)**	53,017
Effect of foreign exchange rate changes		**(7,170)**	(2,131)
Cash and cash equivalents at beginning of year		**724,683**	673,797
Cash and cash equivalents at end of year		**529**	724,683
Analysis of cash and cash equivalents			
Bank and cash balances		**529**	724,683
		529	724,683

Notes to the Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business is Room 2501, 25/F, China Online Centre, No. 333 Lockhart Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and have been suspended for trading since 15 December 2008.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 44 to these financial statements.

2. BASIS OF PREPARATION

Trading in the shares of the Company (the "Shares") has been suspended since 9:30 a.m. on 15 December 2008 at the request of the Company.

After the suspension, the whereabouts of Mr. Yeung Chung Lung ("Mr. Yeung"), the former executive Director and chairman, and Mr. Yang Le ("Mr. Yang"), a former executive Director, could not be confirmed. Given that the Board had difficulties in exercising the authority and control over some of its subsidiaries, the Board considered that, for the benefit of the creditors and the shareholders of the Company (the "Shareholders") as a whole, it was appropriate and necessary to appoint provisional liquidators to preserve the Company's assets and investigate into the affairs and financial condition of the Group.

On 6 January 2009, a winding-up petition (the "Petition") and the application for the appointment of the joint and several provisional liquidators of the Company (the "Provisional Liquidators") were presented to and filed with the High Court of Hong Kong Special Administrative Region (the "Court") by the Company. On the same day, Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai were appointed as the Provisional Liquidators by the Court.

2. BASIS OF PREPARATION (CONTINUED)

The Provisional Liquidators have been investigating into the affairs of the Group and have taken all necessary actions to preserve the assets and to assess the situation of the subsidiaries in the People's Republic of China (the "PRC"). However, without the assistance of the former Directors, Mr. Yeung and Mr. Yang, who were the legal representatives of the subsidiaries in the PRC, the Provisional Liquidators would not be able to proceed the same. As such, legal actions have been taken against Mr. Yeung and Mr. Yang in respective regions in the PRC for the possible damages to the Group resulting from their illegal possessions of the properties of the subsidiaries in the PRC, including but not limited to, the company chops and statutory certificates of the subsidiaries in the PRC. The status of the court cases as at today is as follows:

(i) Fuqing Longyu Food Development Co., Limited ("Fuqing Longyu")

The Fuzhou Intermediate People's Court (福州市中級人民法院) of Fujian Province, the PRC (the "Fuzhou Court") issued a judgment letter dated 28 July 2009 (the "Judgment Letter") in the Provisional Liquidators' favour with regard to the replacements of Fuqing Longyu's legal representative and board of directors. On 2 September 2009, Mr. Yeung filed an appeal against the decisions of the Judgment Letter. The hearing for the appeal lodged by Mr. Yeung was heard on 19 November 2009 at the Higher People's Court of Fujian Province (福建省高級人民法院). On 18 January 2010, the Provisional Liquidators were informed by the PRC legal adviser that the final decision for the appeal had been handed down on 21 December 2009 which upheld the Judgment Letter. The Provisional Liquidators are taking steps to enforce the final decision.

(ii) Jia Jing Commercial (Shanghai) Co. Limited ("Jia Jing (Shanghai)")

On 3 September 2009, the case had been accepted by the People's Court of Pudong New District in Shanghai (the "Pudong Court"). The first and second hearings were heard on 14 October 2009 and 22 December 2009 at which no representatives of nor did Mr. Yang himself attend. Jia Jing (Shanghai), being the plaintiff in the aforesaid legal proceeding, is awaiting a judgment to be granted from the Pudong Court.

(iii) Ningbo Dingwei Food Development Co., Limited ("Ningbo Dingwei")

First China Technology Limited, a subsidiary of the Company and the immediate holding company of Ningbo Dingwei, attempted to file a statement of claim with the Ningbo Intermediate People's Court of Zhejiang Province (浙江省寧波市中級人民法院) but the filing was denied by the court.

The Provisional Liquidators appointed Asian Capital (Corporate Finance) Limited ("Asian Capital") as the financial adviser to the Company on 5 February 2009 to assist the Provisional Liquidators in identifying potential investors with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

2. BASIS OF PREPARATION (CONTINUED)

On 12 March 2009, the Stock Exchange sent a letter to the Company stating that in view of the prolonged suspension of trading in the Shares, the delisting procedures set out in Practice Note 17 to the rules governing the listing of securities on the Stock Exchange (the "Listing Rules") applied to the Company and the Company had been put into the first stage of the delisting procedures which commenced on the date of suspension. If the Company failed to submit a viable resumption proposal to address certain conditions on or before 11 September 2009, the Stock Exchange might consider to proceed to place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules.

The Provisional Liquidators and Asian Capital used their best endeavours to source for potential investors with interest in the restructuring of the Company. Consequently, the restructuring proposal of Group Will Holdings Limited (the "Investor") had been accepted by the Provisional Liquidators.

On 30 July 2009, an exclusivity agreement (the "Exclusivity Agreement") was entered into among the Investor, Mr. Huang Kunyan ("Mr. Huang"), the Company and the Provisional Liquidators to grant the Investor a 12-month exclusivity period to prepare a viable resumption proposal to be submitted to the Stock Exchange with a view to resuming the trading in the Shares (the "Resumption Proposal"), and to negotiate in good faith for entering into a legally binding formal agreement (the "Formal Agreement") for the implementation of the Resumption Proposal.

Pursuant to the Exclusivity Agreement, the Investor shall negotiate with the Provisional Liquidators to enter into an arrangement of working capital facility of up to HK$10 million (or such higher sum the Investor may agree from time to time) for the settlement of the trading and operating expenses as are required to carry on and maintain a viable business of the sale of food products during the course of the proposed restructuring. Such working capital facility will be secured by a debenture with charge(s) over certain assets of the Group.

Given the time constraints, the Company was unable to submit the Resumption Proposal by 11 September 2009 and the Company was placed into the second stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules on 18 September 2009.

Pursuant to the letter from the Stock Exchange on 18 September 2009, among other things, the Company is required to submit a viable Resumption Proposal within six months from the date of the letter (i.e. 10 business days before 17 March 2010) to the Stock Exchange, which should meet the following conditions:

1. demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules;

2. demonstrate that circumstances do not exist to suggest that there may be significant deficiencies in the Group's internal control system;

3. demonstrate the Company's compliance with Rule 3.08 of the Listing Rules regarding duties of the directors; and

4. withdrawal and/or dismissal of the Petition, and discharge of the Provisional Liquidators.

If no viable resumption proposal is submitted by 3 March 2010, the Stock Exchange may consider to proceed to place the Company into the third stage of the delisting procedures.

2. BASIS OF PREPARATION (CONTINUED)

The Investor and the Company are currently reviewing the existing operations of the Group. The Company, with the assistance of Asian Capital and the Investor, are in the course of preparing the Resumption Proposal, and which will be submitted to the Stock Exchange as soon as practicable.

The proposed restructuring, if successfully implemented will, among others, result in:

(i) a restructuring of the share capital of the Company through capital reduction, share consolidation, share subdivision and issue of new shares;

(ii) all creditors of the Company discharging and waiving their claims against the Company by way of schemes of arrangement in Hong Kong and Bermuda as appropriate; and

(iii) resumption of trading in the Shares upon completion of the proposed restructuring subject to the restoration of sufficient public float.

The Provisional Liquidators have provided regular update on the status of the Group to the Court and suggested for the adjournment of granting the winding-up order against the Company. On 14 January 2010, the hearing of the Petition has been further adjourned to 19 July 2010.

Loss of access to books and records of the Group

The Directors have used their best endeavors to locate all the financial and business records of the Group. As the access to most of the books and records of its subsidiaries Fuqing Longyu, Ningbo Dingwei and Jia Jing (Shanghai) have been lost and most of the former accounting personnel of the Group have left, the Directors are unable to obtain sufficient information to satisfy themselves regarding the treatment of various transactions and balances of the Group for the year ended 31 December 2008.

The financial statements have been prepared based on the available books and records maintained by the Group. However, in view of the lack of evidence described above, the Directors are unable to ascertain that the opening balances and corresponding figures of the Group for the year ended 31 December 2008 have been properly reflected in the books and records and in the financial statements.

Any adjustment arising from the matters described above might have a significant consequential effect on the Group's results and financial position for the year ended 31 December 2008 and the related disclosures thereof in the financial statements.

2. BASIS OF PREPARATION (CONTINUED)

Also, as a result of the matters described above, the corresponding figures shown in the financial statements may not be comparable with the figures for the current year.

Deconsolidation of subsidiaries

The financial statements have been prepared based on the books and records maintained by the Group. However, the Directors considered that the control over the following subsidiaries had been lost since 1 July 2008. The results, assets and liabilities and cash flows of these subsidiaries were therefore deconsolidated from the financial statements of the Group since 1 July 2008:

- Fuqing Longyu
- Ningbo Dingwei
- Jia Jing (Shanghai)

Going concern

The Group incurred a loss attributable to equity holders of the Company of approximately RMB1,441,785,000 for the year ended 31 December 2008 (2007: profit of approximately RMB131,035,000) and as at 31 December 2008 the Group had net current liabilities of approximately RMB369,451,000 (2007: net current assets of approximately RMB847,728,000) and net liabilities of approximately RMB369,184,000 (2007: net assets of approximately RMB1,083,565,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments will have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied for the first time the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective:

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
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 the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 [2]
HKAS 1 (Revised)	Presentation of Financial Statements [3]
HKAS 23 (Revised)	Borrowing Costs [3]
HKAS 24 (Revised)	Related Party Disclosures [10]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [4]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [3]
HKAS 32 (Amendment)	Classification of Rights Issues [13]
HKAS 39 (Amendment)	Eligible Hedged Items [4]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [4]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters [5]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations [3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions [5]
HKFRS 3 (Revised)	Business Combinations [4]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments [3]
HKFRS 8	Operating Segments [3]
HKFRS 9	Financial Instruments [11]
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded Derivatives [6]

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HK(IFRIC) – INT 13	Customer Loyalty Programmes [7]
HK(IFRIC) – INT 14 (Amendment)	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [10]
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate [3]
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation [8]
HK(IFRIC) – INT 17	Distributions of Non-cash Assets to Owners [4]
HK(IFRIC) – INT 18	Transfer of Assets from Customers [9]
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments [12]
HK – Int 4 (Amendment)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases [5]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

[2] Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 January 2009.

[4] Effective for annual periods beginning on or after 1 July 2009.

[5] Effective for annual periods beginning on or after 1 January 2010.

[6] Effective for annual periods ending on or after 30 June 2009.

[7] Effective for annual periods beginning on or after 1 July 2008.

[8] Effective for annual periods beginning on or after 1 October 2008.

[9] Effective for transfers on or after 1 July 2009.

[10] Effective for annual periods beginning on or after 1 January 2011.

[11] Effective for annual periods beginning on or after 1 January 2013.

[12] Effective for annual periods beginning on or after 1 July 2010.

[13] Effective for annual periods beginning on or after 1 February 2010.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments and derivatives which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires management to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency. The functional currency of the Company is Hong Kong Dollars.

b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non–monetary items, such as equity instruments classified as available–for–sale financial assets, are included in the investment revaluation reserve in equity.

c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are either investments held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

Trade and other receivables

Trade and other receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which 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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

– the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

– the amount initially recognised less cumulative amortisation recognised in the income statement on a straight–line basis over the terms of the guarantee contracts.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible loans

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non–convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as equity component reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

Derivative financial instruments

Derivatives are initially recognised at fair value on the contract date and are subsequently measured at fair value. Changes in the fair value of derivatives are recognised in the income statement.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time–proportion basis using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Employee benefits

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income in the period in which they become receivable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is related to the Group if:

a) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

b) the party is an associate;

c) the party is a joint venture;

d) the party is a member of the key management personnel of the Company or its parent;

e) the party is a close member of the family of any individual referred to in (a) or (d);

f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and 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.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

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 enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets other than inventories, receivables and investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 expenditures 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 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 is remote.

Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

a) Going concern basis

These financial statements have been prepared on a going concern basis, the validity of which depends upon the Group being able to achieve a successful restructuring and continue its business. Details are explained in note 2 to the financial statements.

b) Deconsolidation of subsidiaries

The financial statements have been prepared based on the books and records maintained by the Group. However, the Directors considered that the control over certain subsidiaries has been lost since 1 July 2008. The results, assets and liabilities and cash flows of these subsidiaries were deconsolidated from the financial statements of the Group since then. Details are explained in note 2 to the financial statements.

Key sources of estimation uncertainty

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

a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight–line basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values involves management's estimation. The Group assesses annually the residual values and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

b) Allowance for bad and doubtful debts

The Group performs ongoing credit evaluations of its debtors and adjusts credit limits based on payment history and the debtor's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its debtors and maintains a provision for estimated credit losses based upon its historical experience and any specific debtors collection issues that it has been identified. The Group will continue to monitor the collections from debtors and maintain an appropriate level of estimate credit losses.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

c) Share-based payment expenses

The fair value of the share options granted to the directors and employees determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payment reserve. In assessing the fair value of the share options, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Black-Scholes Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

6. FINANCIAL RISK MANAGEMENT

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 and the Group's objectives, policies and processes for measuring and managing risk.

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 receivables and deposits with financial institutions. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

(i) Trade 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 of nil (2007: 19.85%) and nil (2007: 45.19%) of the total trade receivables which was due from the Group's largest customer and the five largest customers respectively.

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 32, 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 32.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 25.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

(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 2008, the Group has certain concentration of credit risk as nil (2007: 78.98%) 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.

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.

The remaining contractual maturities as at 31 December 2008 of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on the contractual maturity date, could not be presented because of insufficient information arising from the loss of books and records of the Group as disclosed in note 2 to the financial statements. The following table details the remaining contractual maturities as at 31 December 2007 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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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 Group's and the Company's exposure as at 31 December 2008 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 could not be presented because of insufficient information arising from the loss of books and records of the Group as disclosed in note 2 to the financial statements. Details of the Group's and the Company's exposure to currency risk as at 31 December 2007 are disclosed as below:

The Group

	2007	
	US$'000	HK$'000
Trade and other receivables	15,615	–
Cash and cash equivalents	508	18,139
Bank borrowings	(5,000)	–
Derivative financial Instrument	(16,069)	–
Overall net exposure	(4,946)	18,139

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (Continued)

The Company

	2007	
	US$'000	HK$'000
Trade and other receivables	–	–
Cash and cash equivalents	43	18,139
Bank borrowings	(5,000)	–
Derivative financial Instrument	(16,069)	–
Overall net exposure	(21,026)	18,139

No analysis was presented for the estimated change in the Group's loss after tax (and accumulated losses) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure as at 31 December 2008 because of insufficient information arising from the loss of books and records as disclosed in note 2 to the financial statements.

An analysis of the estimated change in the Group's profit after tax (and retained earnings) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure as at 31 December 2007 is presented in the following table.

The Group

	2007	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States dollar, US$	10%	(3,589)
	(10%)	3,589
Hong Kong dollar, HK$	10%	1,692
	(10%)	(1,692)

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.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

Interest rate profile

No table of details was prepared for the interest rate profile of the Group's and the Company's net borrowings (being bank borrowings and financial guarantee liabilities less cash at bank and bank deposits) as at 31 December 2008 because of insufficient information arising from the loss of books and records of the Group as disclosed in note 2 to the financial statements.

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) as at 31 December 2007.

The Group

	2007	
	Effective interest rate	RMB'000
Net fixed rate borrowings/(deposits):		
Bank borrowings	6.57%-7.29%	13,500
Convertible notes	9.20%	24,273
Less: Bank deposits with original maturities over three months	4.60%	(132,327)
Cash at bank	3.37%-3.93%	(4,821)
		(99,375)
Variable rate borrowings/(deposits):		
Bank borrowings	4.83%-6.88%	253,476
Less: Cash at bank	0.72%-5.40%	(717,490)
		(464,014)
Total net deposits		(563,389)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (Continued)

The Company

	2007	
	Effective interest rate	RMB'000
Net fixed rate borrowings/(deposits):		
Convertible notes	9.20%	24,273
Less: Bank deposits with original maturities over three months	4.60%	(132,327)
Cash at bank	2.63%	(4,821)
		(112,875)
Variable rate borrowings/(deposits):		
Bank borrowings	4.83%-6.88%	253,476
Less: Cash at bank	4.45%-5.40%	(21,471)
		232,005
Total net borrowings		119,130

At 31 December 2008, if interest rates at that date had been 1% lower/higher with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB1,846,000 lower/higher, arising mainly as a result of lower/higher interest expense on bank and other borrowings.

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.

The sensitivity analysis for the balance sheet date as at 31 December 2007 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.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Other price risk

The Group is exposed to price index risk through derivative financial instrument (see note 33). The management monitors the price exposure closely and would consider hedging significant price exposure should the need arises.

At 31 December 2008, the Group did not expose to price index risk because it did not hold any derivative financial instrument. 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 for the balance sheet date as at 31 December 2007 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.

Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

7. TURNOVER

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

	2008 **RMB'000**	2007 RMB'000
Sales of goods	**478,707**	739,484

8. OTHER INCOME

	2008 **RMB'000**	2007 RMB'000
Interest income	**5,103**	13,759
Subsidy income (note)	**–**	300
Sundry income	**1,774**	43
	6,877	14,102

Note:

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 to the municipal government in mainland China.

9. SEGMENT INFORMATION

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

9. SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments

	Frozen marine food products		Frozen functional food products		Seasoned convenient products		Retail shops		Inter-segment elimination		Consolidated	
	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
Years ended 31 December												
REVENUE												
Revenue from external customers	**189,004**	324,362	**265,684**	375,816	**16,571**	34,182	**7,448**	5,124	**–**	–	**478,707**	739,484
Inter-segment revenue	**3,229**	2,971	**1,856**	–	**–**	–	**–**	–	**(5,085)**	(2,971)	**–**	–
Total revenue	**192,233**	327,333	**267,540**	375,816	**16,571**	34,182	**7,448**	5,124	**(5,085)**	(2,971)	**478,707**	739,484
Segment results	**93,657**	157,946	**103,821**	159,426	**7,068**	15,024	**2,770**	1,833	**(528)**	(14)	**206,788**	334,215
Unallocated operating income and expenses											**(30,055)**	(97,371)
Profit from operations											**176,733**	236,844
Loss on deconsolidation of the subsidiaries and impairment on investment costs and amounts due from deconsolidated subsidiaries											**(1,470,704)**	–
Other losses											**(86,756)**	–
Finance cost											**(13,614)**	(32,890)
(Loss)/profit before tax											**(1,394,341)**	203,954
As at 31 December												
Segment assets	**–**	224,374	**–**	119,501	**–**	61,433	**–**	2,405	**–**	–	**–**	407,713
Unallocated assets											**1,405**	1,135,367
Total assets											**1,405**	1,543,080
Segment liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Unallocated liabilities											**370,589**	459,515
Total liabilities											**370,589**	459,515
Other segment information:												
Segment capital expenditure	**7,918**	80,000	**1,118**	11,300	**–**	–	**218**	2,205	**–**	–	**9,254**	93,505
Unallocated capital expenditure											**25,729**	108,418
Total capital expenditure											**34,983**	201,923

9. SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments (Continued)

	Frozen marine food products		Frozen functional food products		Seasoned convenient products		Retail shops		Inter-segment elimination		Consolidated	
	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
Segment depreciation	**3,827**	5,104	**1,598**	2,131	**3,002**	4,004	**97**	130	**–**	–	**8,524**	11,369
Unallocated depreciation											**13,441**	17,928
Total depreciation											**21,965**	29,297
Unallocated amortisation of leasehold land and rental prepayments											**9,783**	18,899

Secondary reporting format – 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		United States of America		Others		Total	
	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**	39,852	**296,260**	472,012	**114,653**	205,032	**21,580**	22,588	**478,707**	739,484

No analysis of total assets and capital expenditure incurred during the year by geographical location is presented as over 90% of the Group's assets are located in the PRC (including mainland China and Hong Kong).

10. OTHER OPERATING EXPENSES

	2008	2007
	RMB'000	RMB'000
Allowance for doubtful debts	**–**	389
Exchange loss	**4,603**	11,685
Impairment on interest receivables	**2,769**	–
Loss on disposal of property, plant and equipment	**–**	27
PRC other taxes and levies	**1,384**	2,998
Sundries	**40**	–
	8,796	15,099

11. LOSS ON DECONSOLIDATION OF THE SUBSIDIARIES AND IMPAIRMENT ON INVESTMENT COSTS AND AMOUNTS DUE FROM DECONSOLIDATED SUBSIDIARIES

	2008 **RMB'000**	2007 RMB'000
Loss on deconsolidation of subsidiaries (note)	**860,372**	–
Impairment on investment costs in the deconsolidated subsidiaries	**192,967**	–
Impairment on amounts due from the deconsolidated subsidiaries	**417,365**	–
	1,470,704	–

Note:

Loss on deconsolidation of subsidiaries

As disclosed in note 2 to the financial statements, the Directors considered that the control over certain subsidiaries had been lost since 1 July 2008. The results, assets and liabilities and cash flows of these subsidiaries were therefore deconsolidated from the financial statements of the Group since then.

Net assets of these subsidiaries as at 1 July 2008 were as follows:

	RMB'000
Property, plant and equipment	**412,905**
Intangible assets	**15,000**
Leasehold land and rental prepayments	**41,862**
Deferred tax assets	**532**
Inventories	**65,226**
Trade receivables	**216,305**
Prepayments, deposits and other receivables	**72,203**
Bank and cash balances	**701,243**
Bank borrowings	**(13,500)**
Trade payables	**(2,792)**
Accruals and other payables	**(12,506)**
Provision for staff welfare benefit	**(10,867)**
Current tax liabilities	**(26,566)**
Due to the Group	**(405,706)**
Net assets deconsolidated	**1,053,339**
Investment costs	**(192,967)**
Loss on deconsolidation of subsidiaries	**860,372**
Net cash outflow arising on deconsolidation of subsidiaries:	
Cash and cash equivalents of subsidiaries deconsolidated	**(701,243)**

12. OTHER LOSSES

	2008 RMB'000	2007 RMB'000
Loss on bank deposits	**73,256**	–
Loss on recognition of financial guarantee liabilities	**13,500**	–
	86,756	–

13. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest expenses on:		
Bank borrowings	**12,070**	25,204
Convertible notes	**1,544**	7,686
	13,614	32,890

14. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is stated after charging the following:

	2008 RMB'000	2007 RMB'000
Directors' emoluments		
As Directors	**1,010**	964
For management	**1,320**	1,140
	2,330	2,104
Auditor's remuneration		
Current year	**227**	912
Under-provision in prior year	**181**	–
	408	912
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**4,784**	10,815
Equity settled share–based payments	**–**	4,942
Retirement benefits scheme contributions	**646**	838
	5,430	16,595
Cost of inventories sold#	**271,919**	405,269
Depreciation	**21,965**	29,297
Amortisation of leasehold land and rental prepayments	**9,783**	18,899
Loss on disposal of property, plant and equipment	**–**	27
Allowance for doubtful debts	**–**	389
Other operating lease charges on land and buildings	**1,728**	1,230
Exchange loss	**4,603**	11,685

For the year ended 31 December 2007, cost of inventories sold included approximately RMB31,059,000 relating to staff costs and depreciation expense in that period.

15. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
Current tax – the PRC Enterprise Income Tax		
Provision for the year	**47,444**	72,921
Deferred tax		
Origination and reversal of temporary differences (note 34)	**–**	(2)
	47,444	72,919

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2008 (2007: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the (loss)/profit before tax is as follows:

	2008 RMB'000	2007 RMB'000
(Loss)/profit before tax	**(1,394,341)**	203,954
Notional tax (credit)/expense on (loss)/profit before tax, calculated at the rates applicable in the tax jurisdictions concerned	**(348,586)**	43,484
Tax effect of income that is not taxable	**(687)**	(2)
Tax effect of expenses that are not deductible	**390,839**	29,385
Tax effect of utilisation of tax losses not previously recognised	**–**	13
Tax effect of unused tax losses not recognised	**5,878**	39
	47,444	72,919

Notes to the Financial Statements (Continued)

For the year ended 31 December 2008

16. DIRECTORS' EMOLUMENTS

The emoluments of each Director were as follows:

	Fees RMB'000	Basic salaries, allowances and benefits in-kind RMB'000	Share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of executive Directors					
Yeung Chung Lung (note (a))	–	630	–	10	640
Yang Le (note (b))	–	335	–	–	335
Lee Wa Lun, Warren (note (f))	–	–	–	–	–
Ni Chao Peng (note (b))	–	335	–	–	335
Yip Tze Wai, Albert (note (c))	765	–	–	10	775
	765	1,300	–	20	2,085
Name of independent non-executive Directors					
Lu Ze Jian (note (b))	–	–	–	–	–
Leung Chiu Shing (note (c))	109	–	–	–	109
Leung King Yue, Alex (note (g))	–	–	–	–	–
Tang Chi Chung, Matthew (note (h))	–	–	–	–	–
Lo Wai On (note (f))	–	–	–	–	–
Wong Chi Keung (note (d))	136	–	–	–	136
	245	–	–	–	245
Total for 2008	1,010	1,300	–	20	2,330

16. DIRECTORS' EMOLUMENTS (CONTINUED)

	Fees RMB'000	Basic salaries, allowances and benefits in-kind RMB'000	Share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of executive Directors					
Yeung Chung Lung (note (a))	490	301	–	12	803
Yang Le (note (b))	–	408	–	–	408
Ni Chao Peng (note (b))	–	407	–	–	407
Yip Tze Wai, Albert (note (c))	239	–	–	12	251
	729	1,116	–	24	1,869
Name of independent non-executive Directors					
Lu Ze Jian (note (b))	–	–	–	–	–
Leung Chiu Shing (note (c))	116	–	–	–	116
Wong Chi Keung (note (d))	14	–	–	–	14
Tsui Chun Chung, Arthur (note (e))	105	–	–	–	105
	235	–	–	–	235
Total for 2007	964	1,116	–	24	2,104

Notes:

(a) Vacated on 27 August 2009
(b) Resigned on 12 December 2008
(c) Resigned on 17 December 2008
(d) Appointed on 26 November 2007
(e) Resigned on 26 November 2007
(f) Appointed on 22 December 2008
(g) Appointed on 17 December 2008
(h) Appointed on 19 December 2008

Certain Directors were granted options to subscribe for the shares of the Company. The details of the share options granted and outstanding in respect of each director as at 31 December 2008 and 2007 are disclosed in note 38 to the financial statements.

During the years ended 31 December 2008 and 2007, 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.

17. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included 4 (2007: 3) Directors, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2007: 2) individual are set out below:

	2008 **RMB'000**	2007 RMB'000
Basic salaries and allowances	**427**	1,053
Equity settled share-based payments	**–**	–
Retirement benefit scheme contributions	**12**	24
	439	1,077

The emoluments of the 1 individual (2007: 2) are fell within the following band:

	Number of individuals	
	2008	2007
HK$ Nil – HK$1,000,000 (approximately equivalent to RMB907,190)	**1**	2

During the years ended 31 December 2008 and 2007, 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.

18. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of approximately RMB570,557,000 (2007: approximately RMB1,685,000) which has been dealt with in the financial statements of the Company.

19. DIVIDENDS

Dividends attributable to the year are as follows:

	2008 **RMB'000**	2007 RMB'000
Final dividend proposed after the balance sheet date of nil per ordinary share (2007: HK$0.040 (equivalent to approximately RMB0.036) per ordinary share)	**–**	43,034

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

19. DIVIDENDS (CONTINUED)

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

	2008 RMB'000	2007 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.040 (equivalent to approximately RMB0.036) per ordinary share (2007: HK$0.045 (equivalent to approximately RMB0.044) per ordinary share)	**43,034**	44,144

20. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share attributable to equity holders of the company is based on the loss for the year attributable to equity holders of the Company of approximately RMB1,441,785,000 (2007: profit of approximately RMB131,035,000) and the weighted average number of approximately 1,136,782,000 ordinary shares (2007: approximately 1,040,320,000 ordinary shares) in issue during the year.

Diluted (loss)/earnings per share

As the exercise of the Group's outstanding convertible notes for the year ended 31 December 2008 would be anti-dilutive and there was no dilutive potential ordinary shares for the Company's outstanding options, no diluted loss per share was presented in this year.

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit for the year attributable to equity holders of the Company of approximately RMB131,035,000 plus the after tax effect of effective interest on the liabilities component of convertible notes of approximately RMB7,669,000 and the weighted average number of approximately 1,157,914,000 ordinary shares, being the weighted average number of approximately 1,040,320,000 ordinary shares in issue during the year used in the basic earnings per share calculation plus (i) the weighted average number of approximately 8,712,000 ordinary shares assumed to be issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date; (ii) the weighted average number of approximately 35,912,000 ordinary shares assumed to be issued on the deemed exercise of the warrants outstanding at the balance sheet date; and (iii) the weighted average number of approximately 72,970,000 ordinary shares assumed to be issued on the deemed exercise of the convertible notes outstanding at the balance sheet date.

21. RETIREMENT BENEFIT 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 2008 in respect of the retirement benefits of its employees.

22. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Furniture and equipment	Motor vehicles	Construction in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2007	182,192	147,563	2,570	2,953	3,906	339,184
Additions	111,020	81,887	7,678	–	1,338	201,923
Exchange differences	–	–	(48)	–	–	(48)
Transfer	1,923	8	–	–	(1,931)	–
Disposals	–	–	–	(194)	–	(194)
At 31 December 2007 and 1 January 2008	295,135	229,458	10,200	2,759	3,313	540,865
Additions	–	15,576	4,398	–	9	19,983
Exchange differences	–	–	(27)	–	–	(27)
Deconsolidation of subsidiaries	(295,135)	(245,034)	(13,853)	(2,759)	(3,322)	(560,103)
At 31 December 2008	–	–	718	–	–	718
Accumulated depreciation						
At 1 January 2007	37,078	56,256	2,070	1,456	–	96,860
Charge for the year	8,621	19,701	738	237	–	29,297
Exchange differences	–	–	(48)	–	–	(48)
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 and 1 January 2008	45,699	75,957	2,760	1,528	–	125,944
Charge for the year	4,886	15,653	1,308	118	–	21,965
Exchange differences	–	–	(27)	–	–	(27)
Written back on deconsolidation of subsidiaries	(50,585)	(91,610)	(3,357)	(1,646)	–	(147,198)
At 31 December 2008	–	–	684	–	–	684
Carrying amount						
At 31 December 2008	–	–	34	–	–	34
At 31 December 2007	249,436	153,501	7,440	1,231	3,313	414,921

23. LEASEHOLD LAND AND RENTAL PREPAYMENTS

	Leasehold land prepayments RMB'000	Rental prepayments RMB'000	Total RMB'000
Carrying amounts			
At 31 December 2008	–	–	–
At 31 December 2007	8,600	42,693	51,293
Analysed for reporting purposes as:			
At 31 December 2007			
Current assets	226	18,340	18,566
Non-current assets	8,374	24,353	32,727
	8,600	42,693	51,293

As at 31 December 2007, the leasehold land was held for own use and was located in mainland China under a land lease term for a period of 50 years up to December 2045.

24. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	–	1,551
Finished goods	–	31,551
	–	33,102

25. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2008 RMB'000	2007 RMB'000
Within 1 month	–	59,189
More than 1 month but within 3 months	–	69,602
More than 3 months but within 6 months	–	5,772
More than 6 months but within 1 year	–	166
	–	134,729
Less: Allowance for doubtful debts (note)	–	(389)
	–	134,340

25. TRADE RECEIVABLES (CONTINUED)

Note:

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.

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

	2008 **RMB'000**	2007 RMB'000
Neither past due nor impaired	**–**	128,791
3 to 12 months past due	**–**	5,549
	–	134,340

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.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2008 **RMB'000**	2007 RMB'000
Advances to employees	**–**	148
Interest receivable	**–**	1,858
Advances to suppliers	**–**	3,739
Rental and other deposits	**609**	15,928
Prepayments	**–**	11,310
	609	32,983

27. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

	2008 **RMB'000**	2007 RMB'000
Interest rate linked deposit	–	18,652

During the year 2007, the Company entered into an interest rate linked deposit contract with a commercial bank.

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

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 deposit contract are summarized as follows:

Principal date:	HK$20,000,000
Effective date:	30 November 2007
Maturity date:	30 November 2008
Interest rate:	4% p.a. (1st quarter of 3 months)
	12 x (3.8% – HK$ 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 the 6th to 9th of the month to apply for termination, plus 1% bank charge on principal amount

28. BANK AND CASH BALANCES

	2008 **RMB'000**	2007 RMB'000
Deposits with banks	–	4,821
Cash at bank and in hand	**529**	719,862
	529	724,683

As at 31 December 2008, the Group's cash and bank balances of approximately nil (2007: RMB677,248,123) were denominated in Renminbi. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

29. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2008	2007
	RMB'000	RMB'000
Within 1 month	**–**	420
After 1 month but within 3 months	**–**	47
After 3 months but within 6 months	**–**	–
After 6 months	**–**	21
	–	488

30. ACCRUALS AND OTHER PAYABLES

	2008	2007
	RMB'000	RMB'000
Finance costs payable	**1,892**	1,954
Accruals and other payables	**2,227**	2,895
Other taxes payables	**–**	12,906
Claim arising from derivative financial instrument (note (a))	**109,155**	–
Due to a director (note (b))	**59,181**	7,160
	172,455	24,915

Notes:

(a) Included in the accruals and other payables of the Group is a claim arising from the derivative financial instrument with a carrying amount of US$15,927,075 (equivalent to approximately RMB109,155,000) (2007: nil). The claim is arising from a notice of early termination of a US$ interest rate swap agreement dated 3 November 2008 served by a commercial bank. The Provisional Liquidators have engaged a Hong Kong legal adviser to assist in reviewing the claim lodged by that commercial bank.

(b) The amount due to a director is unsecured, non-interest bearing and has no fixed terms of repayment.

(c) All amounts of the accruals and other payables as stated above were recognised based on the books and records of the Group made available to the Directors and the Provisional Liquidators.

31. BANK BORROWINGS

The bank borrowings were unsecured and repayable as follows:

	2008 RMB'000	2007 RMB'000
Within 1 year or on demand	**184,634**	161,585
After 1 year but within 2 years	**–**	100,728
After 2 years but within 5 years	**–**	4,663
	184,634	266,976
Non-current portion	**–**	(105,391)
Current portion	**184,634**	161,585

The carrying amounts of the bank borrowings are denominated in the following currencies:

	RMB RMB'000	US$ RMB'000	HK$ RMB'000	Total RMB'000
2008	**–**	**34,267**	**150,367**	**184,634**
2007	13,500	36,278	217,198	266,976

At 31 December 2008, the terms of bank borrowings were as follows:

(a) Bank borrowings of approximately HK$18,699,000 (2007: nil) carried interest at 2.75% (2007: nil) over HIBOR per annum and are repayable within one year.

(b) Bank borrowings of approximately HK$16,667,000 (2007: nil) carried interest at 1.75% (2007: nil) over HIBOR per annum and are repayable within one year.

(c) Bank borrowings of HK$15,000,000 (2007: HK$10,000,000) carried interest at 2.5% (2007: 2.75%) over HIBOR per annum and are repayable within one year.

(d) Bank borrowings of US$5,000,000 (2007: US$5,000,000) carried interest at 1.75% (2007: 1.75%) over LIBOR per annum and are repayable within one year.

(e) Bank borrowings of approximately HK$3,553,000 (2007: HK$18,333,000) carried interest at 2% (2007: 2%) over HIBOR per annum and are repayable within one year.

(f) Bank borrowings of HK$30,000,000 (2007: nil) carried interest at 3.5% (2007: nil) over HIBOR per annum and repayable within one year.

(g) Bank borrowings of approximately HK$86,777,000 (2007: HK$195,000,000) carried interest at 1.25% (2007: 1.25%) over HIBOR per annum and are repayable within one year.

32. FINANCIAL GUARANTEE LIABILITIES

As disclosed in notes 2 and 11 to the financial statements, a bank borrowing of RMB13,500,000 maintained by Fuqing Longyu was deconsolidated from the financial statements of the Company since 1 July 2008. However, since the Company provides corporate guarantee for the bank borrowing, the Company is therefore liable to the financial guarantee liabilities of RMB13,500,000 as at 31 December 2008 (2007: Nil).

33. DERIVATIVE FINANCIAL INSTRUMENT

	2008 **RMB'000**	2007 RMB'000
Interest rate swap contract, at fair value	–	116,590
Less: Non-current portion	–	(81,904)
Current portion	–	34,686

In 2007, the Company entered into an interest rate swap contract (the "Swap") with a notional amount of US$100,000,000 (equivalent to approximately RMB753,000,000) with a commercial bank (the "Bank"), under which an upfront payment of US$10,000,000 (equivalent to approximately RMB72,556,000) was received at the inception of the Swap and were initially recognized as derivative financial liability in the balance sheet. According to this contract, the Company will receive at a fixed rate and the Group will pay at a floating rate determined by Deutsche Bank Pan-Asian Forward Rate Bias Index as published on Bloomberg. The Swap contract matured in 2012.

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:	US$100,000,000
Upfront payment:	US$10,000,000
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)

33. DERIVATIVE FINANCIAL INSTRUMENT (CONTINUED)

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.

As mentioned in note 30, a claim is arisen from a notice of early termination of this interest rate swap agreement dated 3 November 2008 served by the Bank. As such, this derivative financial instrument was reclassified as the accrual and other payables as at 31 December 2008. The Provisional Liquidators have engaged a Hong Kong legal adviser to assist in reviewing the claim lodged by the Bank.

34. DEFERRED TAXATION

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

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 2007	532	–	280	(3,391)	(2,579)
Exchange differences	–	–	(18)	249	231
Credited/(charged) to income statement					
– 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 and 1 January 2008	532	64	183	(1,022)	(243)
Exchange differences	–	(4)	(10)	58	44
Credited to reserves					
– others	–	–	–	964	964
Deconsolidation of subsidiaries	(532)	–	–	–	(532)
At 31 December 2008	–	60	173	–	233

35. 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%.

The movement of the liability component of the convertible notes for the two years ended 31 December 2008 and 2007 is set out below:

	RMB'000
As at 31 December 2006	94,989
Exchange differences	(6,234)
Conversion of convertible notes during the year	(69,583)
Interest charged	7,686
Interest payable	(2,585)
As at 31 December 2007 and 1 January 2008	24,273
Exchange differences	(2,522)
Interest charged	1,544
Interest payable	(1,397)
Redemption of convertible notes	(21,898)
As at 31 December 2008	–

36. SHARE CAPITAL

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

		2008		2007	
	Notes	**Number of shares '000**	**Amount RMB'000**	Number of shares '000	Amount RMB'000
Authorized:					
Ordinary shares of HK$0.05 each		**2,000,000**	**10,600**	2,000,000	10,600
Issued and fully paid:					
Ordinary shares of HK$0.05 each					
At 1 January		**1,122,082**	**58,575**	976,421	51,750
Exercise of share options		**16,700**	**736**	25,428	1,186
Exercise of warrants	(i)	**47,133**	**2,076**	17,360	842
Conversion of convertible notes	(ii)	**–**	**–**	106,173	4,951
Purchase of own shares	(iii)	**–**	**–**	(3,300)	(154)
At 31 December		**1,185,915**	**61,387**	1,122,082	58,575

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.

Notes:

(i) In 2008, 339 (2007: 131) detachable warrants were exercised to subscribe for 47,133,263 ordinary shares (2007: 17,360,037 ordinary shares) in the Company at an exercise price of HK$0.28 (equivalent to approximately RMB0.26) (2007: HK$0.295 (equivalent to approximately RMB0.286)) per ordinary share.

(ii) In 2007, 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) In 2007, the Company repurchased its own 3,300,000 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)) 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.

37. RESERVES

a) *Group*

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

b) *Company*

	Share Premium	Employee share-based compensation reserve	Equity component reserve	Foreign currency translation reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	174,229	6,717	20,058	(11,606)	(33,810)	155,588
Translation difference	–	–	–	(15,064)	–	(15,064)
Purchase of own shares	(3,274)	–	–	–	–	(3,274)
Shares issued upon exercise of share options	16,850	(3,507)	–	–	–	13,343
Shares issued upon exercise of warrants	5,493	–	(1,366)	–	–	4,127
Equity settled share-based payment	–	4,942	–	–	–	4,942
Conversion of convertible notes	76,549	–	(11,917)	–	–	64,632
Dividend approved in respect of previous year (note 19)	–	–	–	–	(44,144)	(44,144)
Deferred tax effect on equity component (note 34)	–	–	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
At 1 January 2008	**269,847**	**8,152**	**8,878**	**(26,670)**	**(79,639)**	**180,568**
Translation difference	**–**	**–**	**–**	**(11,059)**	**–**	**(11,059)**
Shares issued upon exercise of share options	**11,857**	**(2,912)**	**–**	**–**	**–**	**8,945**
Shares issued upon exercise of warrants	**13,084**	**–**	**(3,535)**	**–**	**–**	**9,549**
Deferred tax effect on equity component (note 34)	**–**	**–**	**964**	**–**	**–**	**964**
Redemption of convertible notes	**–**	**–**	**(6,307)**	**–**	**–**	**(6,307)**
Equity settled share-based payment	**5,240**	**(5,240)**	**–**	**–**	**–**	**–**
Dividend approved in respect of previous year (note 19)	**–**	**–**	**–**	**–**	**(43,034)**	**(43,034)**
Loss for the year	**–**	**–**	**–**	**–**	**(570,557)**	**(570,557)**
At 31 December 2008	**300,028**	**–**	**–**	**(37,729)**	**(693,230)**	**(430,931)**

37. RESERVES (CONTINUED)

c) *Nature and purpose of reserves of the Group*

(i) Share premium

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.

(ii) Merger reserve

Merger reserve represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired, pursuant to the reorganisation scheme which rationalising the structure of the Group for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited over the nominal value of the share capital of the Company issued in exchange therefore.

(iii) Statutory reserve fund

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.

(iv) Enterprise expansion reserve fund

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.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the financial statements.

38. SHARE-BASED PAYMENTS

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.

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.

38. SHARE-BASED PAYMENTS (CONTINUED)

Movements in share options are as follows:

	Number of options 2008	2007
At 1 January	**38,402,000**	43,830,000
Granted during the year	**–**	20,000,000
Exercised during the year	**(16,700,000)**	(25,428,000)
Lapsed during the year	**(21,702,000)**	–
At 31 December	**–**	38,402,000
Options vested at 31 December	**N/A**	38,402,000

Details of share options by category of participant are as follows:

Name or category of participant	Date of grant	Exercise period	Exercise price HK$	Balance at 1/1/2008	Exercised during the year	Lapsed during the year	Balance at 31/12/2008
Year 2008							
Directors:							
Yang Le	23/7/2004	23/7/2004 to 22/7/2014	0.489	**2,000,000**	**(2,000,000)**	**–**	**–**
	28/4/2006	28/4/2006 to 27/4/2016	0.690	**5,000,000**	**(5,000,000)**	**–**	**–**
Ni Chao Peng	28/4/2006	28/4/2006 to 27/4/2016	0.690	**5,000,000**	**(5,000,000)**	**–**	**–**
Yip Tze Wai, Albert	23/7/2004	23/7/2004 to 22/7/2014	0.489	**202,000**	**–**	**(202,000)**	**–**
	28/4/2006	28/4/2006 to 27/4/2016	0.690	**1,000,000**	**–**	**(1,000,000)**	**–**
Leung Chiu Shing	28/4/2006	28/4/2006 to 27/4/2016	0.690	**500,000**	**–**	**(500,000)**	**–**
Employees:							
In aggregate	27/4/2006	27/4/2006 to 26/4/2016	0.662	**4,700,000**	**(4,700,000)**	**–**	**–**
	9/10/2007	9/10/2007 to 8/10/2017	1.050	**20,000,000**	**–**	**(20,000,000)**	**–**
				38,402,000	**(16,700,000)**	**(21,702,000)**	**–**
Weighted average exercise price (HK$)				**0.863**	**0.658**	**1.020**	**N/A**

38. SHARE-BASED PAYMENTS (CONTINUED)

Name or category of participant	Date of grant	Exercise period	Exercise price HK$	Balance at 1/1/2007	Granted during the year	Exercise during the year	Balance at 31/12/2007
Year 2007							
Directors:							
Yeung Chung Lung	23/7/2004	23/7/2004 to 22/7/2014	0.489	3,000,000	–	(3,000,000)	–
	28/4/2006	28/4/2006 to 27/4/2016	0.690	5,000,000	–	(5,000,000)	–
Yang Le	23/7/2004	23/7/2004 to 22/7/2014	0.489	2,000,000	–	–	2,000,000
	28/4/2006	28/4/2006 to 27/4/2016	0.690	5,000,000	–	–	5,000,000
Ni Chao Peng	28/4/2006	28/4/2006 to 27/4/2016	0.690	5,000,000	–	–	5,000,000
Yip Tze Wai, Albert	23/7/2004	23/7/2004 to 22/7/2014	0.489	930,000	–	(728,000)	202,000
	28/4/2006	28/4/2006 to 27/4/2016	0.690	1,000,000	–	–	1,000,000
Tsui Chun Chung, Arthur	19/1/2005	19/1/2005 to 18/1/2015	0.560	500,000	–	(500,000)	–
Leung Chiu Shing	28/4/2006	28/4/2006 to 27/4/2016	0.690	500,000	–	–	500,000
Employees:							
In aggregate	23/7/2004	23/7/2004 to 22/7/2014	0.489	4,200,000	–	(4,200,000)	–
	27/4/2006	27/4/2006 to 26/4/2016	0.662	15,700,000	–	(11,000,000)	4,700,000
	28/4/2006	28/4/2006 to 27/4/2016	0.690	1,000,000	–	(1,000,000)	–
	9/10/2007	9/10/2007 to 8/10/2017	1.050	–	20,000,000	–	20,000,000
				43,830,000	20,000,000	(25,428,000)	38,402,000
Weighted average exercise price (HK$)				0.632	1.050	0.613	0.863

38. SHARE-BASED PAYMENTS (CONTINUED)

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 grant 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$1.050
(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	39.00%	39.00%	40.41%
(iv) Expected dividend yield	5.00%	5.00%	4.33%
(v) Expected life	10 years	10 years	10 years

During the year, options were exercised to subscribe for 16,700,000 (2007: 25,428,000) ordinary shares in the Company at a total consideration of approximately RMB9,681,000 (2007: RMB14,529,000) of which approximately RMB736,000 (2007: RMB1,186,000) was credited to share capital and the balance of approximately RMB8,945,000 (2007: RMB13,343,000) was credited to the share premium account. Approximately RMB2,912,000 (2007: RMB3,507,000) 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 4.

39. WARRANTS

The Company issued 2.5% coupon bonds (the "Bonds"), with detachable warrants attached, on 10 April 2003, and all of 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 of HK$0.28 per share.

39. WARRANTS (CONTINUED)

Movements in warrants are as follows:

	Number of warrants 2008	2007
At 1 January	**339**	470
Exercised during the year	**(339)**	(131)
At 31 December	**–**	339

Terms of unexpired and unexercised warrants at balance sheet date:

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

40. COMMITMENTS

Capital commitments of the Group are as follows:

	2008 RMB'000	2007 RMB'000
Acquisition of property, plant and equipment		
– contracted for but not provided for	**–**	75,383
– authorised but not contracted for	**–**	8,000
	–	83,383

Operating lease commitments

As at the 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:

	2008 RMB'000	2007 RMB'000
Within 1 year	**–**	21,165
After 1 year but within 5 years	**–**	69,758
After 5 years	**–**	111,120
	–	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.

41. CONTINGENT LIABILITIES

A full search of the contingent liabilities of the Group has not been conducted. Any lawsuits or winding-up petitions against the Company will be subject to the court approval and the respective claims will be subject to a formal adjudication process, dealt with and compromised under the restructuring scheme upon the completion of the restructuring with the Investor.

The Provisional Liquidators, also acting as the directors of the subsidiaries, are not aware of any potential claim against the subsidiaries as at 31 December 2008.

42. MATERIAL RELATED PARTY TRANSACTIONS

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 16 and all of the highest paid employees as disclosed in note 17, is as follows:

	2008 **RMB'000**	2007 RMB'000
Short-term employee benefits	**2,737**	3,133
Post-employment benefits	**32**	48
	2,769	3,181

43. EVENTS AFTER THE BALANCE SHEET DATE

After the suspension of trading of the shares of the Company on the Stock Exchange, the whereabouts of Mr. Yeung, the former executive Director and chairman, and Mr. Yang, a former executive Director, could not be confirmed. Given that the Board had difficulties in exercising the authority and control of the Company over some of its subsidiaries, the Board considered that, for the benefit of the creditors and the Shareholders as a whole, it was appropriate and necessary to appoint provisional liquidators to preserve the Company's assets and investigate into the affairs and financial condition of the Group.

On 6 January 2009, the Petition and the application for the appointment of the Provisional Liquidators were presented to and filed with the Court by the Company. On the same day, Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai were appointed as the Provisional Liquidators by the Court.

The Provisional Liquidators have been investigating into the affairs of the Group and have taken all necessary actions to preserve the assets and to assess the situation of the subsidiaries in the PRC. However, without the assistance of the former Directors, Mr. Yeung and Mr. Yang, who were the legal representatives of the subsidiaries in the PRC, the Provisional Liquidators would not be able to proceed the same. As such, legal actions have been taken against Mr. Yeung and Mr. Yang in respective regions in the PRC for the possible damages to the Group resulting from their illegal possessions of the properties of the subsidiaries in the PRC, including but not limited to, the company chops and statutory certificates of the subsidiaries in the PRC. The status of the court cases as at today is as follows:

43. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

(i) Fuqing Longyu

The Fuzhou Court issued the Judgment Letter in the Provisional Liquidators' favour with regard to the replacements of Fuqing Longyu's legal representative and board of directors. On 2 September 2009, Mr. Yeung filed an appeal against the decisions of the Judgment Letter. The hearing for the appeal lodged by Mr. Yeung was heard on 19 November 2009 at the Higher People's Court of Fujian Province (福建省高級人民法院). On 18 January 2010, the Provisional Liquidators were informed by the PRC legal adviser that the final decision for the appeal had been handed down on 21 December 2009 which upheld the Judgment Letter. The Provisional Liquidators are taking steps to enforce the final decision.

(ii) Jia Jing (Shanghai)

On 3 September 2009, the case had been accepted by the Pudong Court. The first and second hearings were heard on 14 October 2009 and 22 December 2009 at which no representatives of nor did Mr. Yang himself attend. Jia Jing (Shanghai), being the plaintiff in the aforesaid legal proceeding, is awaiting a judgment to be granted from the Pudong Court.

(iii) Ningbo Dingwei

First China Technology Limited, a subsidiary of the Company and the immediate holding company of Ningbo Dingwei, attempted to file a statement of claim with the Ningbo Intermediate People's Court of Zhejiang Province (浙江省寧波市中級人民法院) but the filing was denied by the court.

The Provisional Liquidators appointed Asian Capital as the financial adviser to the Company on 5 February 2009 to assist the Provisional Liquidators in identifying potential investors with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

On 12 March 2009, the Stock Exchange sent a letter to the Company stating that in view of the prolonged suspension of trading in the Shares, the delisting procedures set out in Practice Note 17 to the Listing Rules applied to the Company and the Company had been put into the first stage of the delisting procedures which commenced on the date of suspension. If the Company failed to submit a viable resumption proposal to address certain conditions on or before 11 September 2009, the Stock Exchange might consider to proceed to place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules.

The Provisional Liquidators and Asian Capital used their best endeavours to source for potential investors with interest in the restructuring of the Company. Consequently, the restructuring proposal of the Investor had been accepted by the Provisional Liquidators.

On 30 July 2009, the Exclusivity Agreement was entered into among the Investor, Mr. Huang, the Company and the Provisional Liquidators to grant the Investor a 12-month exclusivity period to prepare the Resumption Proposal, and to negotiate in good faith for entering into the Formal Agreement for the implementation of the Resumption Proposal.

43. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

Pursuant to the Exclusivity Agreement, the Investor shall negotiate with the Provisional Liquidators to enter into an arrangement of working capital facility of up to HK$10 million (or such higher sum the Investor may agree from time to time) for the settlement of the trading and operating expenses as are required to carry on and maintain a viable business of the sale of food products during the course of the proposed restructuring. Such working capital facility will be secured by a debenture with charge(s) over certain assets of the Group.

Given the time constraints, the Company was unable to submit the Resumption Proposal by 11 September 2009 and the Company was placed into the second stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules on 18 September 2009.

Pursuant to the letter from the Stock Exchange on 18 September 2009, among other things, the Company is required to submit a viable Resumption Proposal within six months from the date of the letter (i.e. 10 business days before 17 March 2010) to the Stock Exchange, which should meet the following conditions:

1. demonstrate that the Company has a sufficient level of operations or has assets of sufficient value as required under Rule 13.24 of the Listing Rules;

2. demonstrate that circumstances do not exist to suggest that there may be significant deficiencies in the Group's internal control system;

3. demonstrate the Company's compliance with Rule 3.08 of the Listing Rules regarding duties of the directors; and

4. withdrawal and/or dismissal of the Petition, and discharge of the Provisional Liquidators.

If no viable resumption proposal is submitted by 3 March 2010, the Stock Exchange may consider to proceed to place the Company into the third stage of the delisting procedures.

The Investor and the Company are currently reviewing the existing operations of the Group. The Company, with the assistance of Asian Capital and the Investor, are in the course of preparing the Resumption Proposal, and which will be submitted to the Stock Exchange as soon as practicable.

The proposed restructuring, if successfully implemented will, among others, result in:

(i) a restructuring of the share capital of the Company through capital reduction, share consolidation, share subdivision and issue of new shares;

(ii) all creditors of the Company discharging and waiving their claims against the Company by way of schemes of arrangement in Hong Kong and Bermuda as appropriate; and

(iii) resumption of trading in the Shares upon completion of the proposed restructuring subject to the restoration of sufficient public float.

43. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

The Provisional Liquidators have provided regular update on the status of the Group to the Court and suggested for the adjournment of granting the winding-up order against the Company. On 14 January 2010, the hearing of the Petition has been further adjourned to 19 July 2010.

44. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Name	Place of incorporation/ registration	Issued and paid-up capital/ registered capital	Percentage of ownership interest/ voting power/ profit sharing 2008	2007	Principal activities
First China Technology Limited	British Virgin Islands	1,000 ordinary shares of US$1	100%	100%	Investment holding
Smart Dragon International Trading Limited	Hong Kong	100 ordinary shares of HK$1	100%	100%	Investment holding
First China Technology (Hong Kong) Limited	Hong Kong	1 ordinary share of HK$1	100%	100%	Investment holding
Fuqing Longyu (note (i))	Mainland China	US$23,000,000	–	100%*	Manufacturing and sale of food products
Ningbo Dingwei (note (ii))	Mainland China	US$3,000,000	–	100%*	Inactive
Jia Jing (Shanghai) (note (iii))	Mainland China	HK$10,000,000	–	100%*	Sale of good products in UBI brand

* *These subsidiaries were indirectly held by the Company.*

Notes:

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

45. BALANCE SHEET OF THE COMPANY AS AT 31 DECEMBER 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment		**34**	13
Investment in subsidiaries		**–**	131
		34	144
Current assets			
Prepayments, deposits and other receivables		**575**	2,417
Due from subsidiaries*		**–**	462,387
Financial assets designated at fair value		**–**	18,652
Bank deposits with original maturities over three months		**–**	132,327
Cash and cash equivalents		**436**	26,612
		1,011	642,395
Current liabilities			
Accruals and other payables		**172,455**	8,018
Bank borrowings		**184,634**	148,085
Financial guarantee liabilities		**13,500**	–
Derivative financial instrument		**–**	34,686
		370,589	190,789
Net current (liabilities)/assets		**(369,578)**	451,606
Total assets less current liabilities		**(369,544)**	451,750
Non-current liabilities			
Bank borrowings		**–**	105,391
Derivative financial instruments		**–**	81,904
Deferred taxation		**–**	1,022
Convertible notes		**–**	24,273
Financial guarantee contract		**–**	17
		–	212,607
NET (LIABILITIES)/ASSETS		**(369,544)**	239,143
Capital and reserves			
Share capital	36	**61,387**	58,575
Reserves	37	**(430,931)**	180,568
TOTAL EQUITY		**(369,544)**	239,143

* The amounts due from subsidiaries were unsecured, interest-free and had no fixed terms of repayment.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22 January 2010.

Five Year Financial Summary

The following table summarises the results, and the assets and liabilities of the Group for each of five years ended 31 December 2008:

RESULTS

	Year ended 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008** **RMB'000**
Turnover	434,122	432,652	545,739	739,484	**478,707**
Profit/(loss) before tax	162,015	155,772	192,253	203,954	**(1,394,341)**
Income tax expense	(42,162)	(42,311)	(54,247)	(72,919)	**(47,444)**
Profit/(loss) for the year attributable to the equity holders of the Company	119,853	113,461	138,006	131,035	**(1,441,785)**

ASSETS AND LIABILITIES

	As at 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008** **RMB'000**
Total assets	794,473	870,566	1,349,022	1,543,080	**1,405**
Total liabilities	(162,693)	(153.498)	(458,089)	(459,515)	**(370,589)**
Net assets/(liabilities)	631,780	717,068	890,933	1,083,565	**(369,184)**