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## **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)**

### **FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010**

The board (the “Board”) of directors (the “Directors”) of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2010, which have been agreed by the auditor of the Company, together with comparative figures for the corresponding year of 2009 as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the year ended 31 December 2010*

	<i>Notes</i>	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Turnover</b>	4	<b>144,006</b>	2,542
Cost of sales		<b>(136,281)</b>	(2,505)
Gross profit		<b>7,725</b>	37
Other income	5	<b>1,212</b>	429
Selling expenses		<b>(523)</b>	–
Administrative expenses		<b>(5,959)</b>	(5,068)
<b>Profit/(loss) from operations</b>		<b>2,455</b>	(4,602)
Finance costs	7	<b>(5,613)</b>	(9,559)
<b>Loss before tax</b>	8	<b>(3,158)</b>	(14,161)
Income tax expense	9	<b>(1,119)</b>	–
<b>Loss for the year attributable to owners of the Company</b>	10	<b>(4,277)</b>	(14,161)
<b>Other comprehensive income for the year, net of tax:</b>			
Exchange differences on translating foreign operations		<b>13,529</b>	(118)
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b>9,252</b>	(14,279)
<b>Loss per share attributable to owners of the Company</b>	12		
Basic (RMB cents per share)		<b>(0.36)</b>	(1.19)
Diluted (RMB cents per share)		<b>(0.36)</b>	(1.19)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	<i>Notes</i>	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		40	26
Goodwill	13	5,180	–
Deferred tax assets		224	233
		<u>5,444</u>	<u>259</u>
<b>Current assets</b>			
Inventories		3,944	918
Trade receivables	14	33,514	1,422
Prepayments, deposits and other receivables		6,581	122
Bank and cash balances		13,485	6,487
		<u>57,524</u>	<u>8,949</u>
<b>Current liabilities</b>			
Trade payables	15	18,670	–
Accruals, other payables and deposits received	16	226,502	195,349
Bank borrowings		177,192	183,822
Financial guarantee liabilities		13,500	13,500
Current tax liabilities		1,315	–
		<u>437,179</u>	<u>392,671</u>
<b>Net current liabilities</b>		<u>(379,655)</u>	<u>(383,722)</u>
<b>NET LIABILITIES</b>		<u>(374,211)</u>	<u>(383,463)</u>
<b>Capital and reserves</b>			
Share capital		61,387	61,387
Reserves		(435,598)	(444,850)
<b>TOTAL EQUITY</b>		<u>(374,211)</u>	<u>(383,463)</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2010*

### 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 62th Floor, One Island East, 18 Westlands Road, Island East, 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 Company, through its major subsidiaries, is principally engaged in the processing and trading of food products mainly including frozen and functional food products.

### 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, a former executive Director, could not be confirmed. Given that the Board of directors (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.

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 Le, 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 Le 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 advisor that the final decision for the appeal had been handed down on 21 December 2009 which upheld the Judgment Letter in the Provisional Liquidators' favour with regard to the replacements of Fuqing Longyu's legal representative and board of directors.

The enforcement of the Final Decision was applied with the Fuzhou Court in early March and an enforcement notice had been issued on 12 April 2010 by the Fuzhou Court to the Administration of Industry and Commerce in Fuqing (福清市工商行政管理局) (the “Fuqing AIC”). The Provisional Liquidators were informed by the PRC legal advisor, based on his recent visit to the Fuqing AIC in May 2010 and to the Foreign Trade and Economic Cooperation Bureau in Fuqing (福清市對外貿易經濟合作局) (“Fuqing FTECB”) in July 2010, that the changes of the board and the legal representative of Fuqing Longyu have not been effected despite the enforcement notices having been issued to both authorities by the Fuzhou Court.

As such, the Provisional Liquidators have written to the Fujian Provincial Department of Foreign Trade and Economic Cooperation (the “Fujian FTECB”) (福建省對外貿易經濟合作廳), the Hong Kong Economic and Trade Office in Guangdong of the Government of the Hong Kong Special Administrative Region (the “HKETO”) (香港特別行政區政府駐粵經濟貿易辦事處) and the Ministry of Commerce of the PRC (中華人民共和國商務部) informing the difficulties encountered and seeking their assistance in replacing the board and the legal representative of Fuqing Longyu. The HKETO issued letters to the Fujian FTECB and the Higher People’s Court of Fujian province in late August 2010.

Given that the Fuqing FTECB failed unjustifiably to respond to the Provisional Liquidators’ request, the Provisional Liquidators sought legal advice from the PRC legal advisor and are preparing to take out a legal action against the Fuqing FTECB.

The Provisional Liquidators were informed by the Fujian Branch of Bank of China (the “BOC Fujian”) (中國銀行－福建省分行) in the PRC that the BOC Fujian had obtained a judgment against Fuqing Longyu in relation to a loan granted to Fuqing Longyu and is taking steps to dispose of certain collaterals to repay the loan. Since the replacement of the board and the legal representative of Fuqing Longyu has not been effected by Fuqing AIC, the BOC Fujian has not provided the Provisional Liquidators with the details of the abovementioned legal action.

**(ii) Jia Jing Commercial (Shanghai) Co., Limited (“Jia Jing (Shanghai)”)**

After consulting the PRC legal advisor, the Provisional Liquidators are taking appropriate steps to apply for reissuance of company chops and statutory certificates of Jia Jing (Shanghai).

**(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 (the “Ningbo Court”) (浙江省寧波市中級人民法院) but the filing was denied by the Ningbo Court. After consulting the PRC legal advisor, the Provisional Liquidators are taking appropriate steps to prepare a revised statement of claim to be filed with the Ningbo Court.

As mentioned in the section headed “Restructuring of the Group” below, with the working capital facility provided by the Investor, the Group has restored its trading business operations in the second half of 2009.

To further extend the Group’s geographical coverage and enlarge the scale of its operations, in April 2010, Pacific Prosper Limited (“Pacific Prosper”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, pursuant to which Pacific Prosper acquired the entire issued share capital of Orient Legend International Limited (“Orient Legend”), which is engaged in the trading of frozen food and food processing for an aggregate cash consideration of HK\$10 million (the “Acquisition”). The completion of the Acquisition took place on 4 October 2010.

In order to have better control over the raw materials quality and enhance the profitability of the Group, in April 2010, Trendy Leader Limited (“Trendy Leader”), an indirect wholly-owned subsidiary of the Company, and an independent third party entered into a leasing agreement, pursuant to which Trendy Leader leased fish ponds with a total area of approximately 7 hectares located in Jiangmen, Guangdong Province, the PRC for a period of 3 years.

To expand the Group’s existing business operations, Trendy Leader entered into a processing agreement with an independent third party in April 2010, which owns processing lines located in Jiangmen, Guangdong Province, the PRC (the “Processing Agreement”). Pursuant to the Processing Agreement, Trendy Leader will, among others, provide the raw materials, supplements and packaging materials while the said independent third party will provide processing services to process the frozen fish products in accordance with the specifications and time constraint given by Trendy Leader.

To intensify and strengthen the value-added services of the Group through the processing plant in Jiangmen by taking advantage of the established trading volume already achieved by Orient Legend and Trendy Leader, on 5 October 2010, Pacific Prosper, Mr. Wong Chi Ho and Mr. Wong King Luen entered into an agreement (the “Sincere Gold Agreement”). Details of the Sincere Gold Agreement are published in the circular of the Company dated 17 December 2010. The transactions contemplated under the Sincere Gold Agreement were approved by the Shareholders at the special general meeting held on 4 January 2011.

#### *Restructuring of the Group*

The Provisional Liquidators appointed Asian Capital (Corporate Finance) Limited (“Asian Capital”) as the financial advisor 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 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 proceeding 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, and to negotiate in good faith for entering into a legally binding formal agreement (the “Formal Agreement”) for the implementation of the resumption proposal. Since the exclusivity period has expired on 29 July 2010, in view of the Investor’s willingness and financial ability to pursue the restructuring and a supplemental agreement was entered into to grant an extension of the exclusivity period to the Investor to cover the remaining period before the deadline for submitting 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. With the sanction from the Court, the Investor and Supreme Wit Limited (“Supreme Wit”), a direct wholly owned subsidiary of the Company which was set up after the appointment of the Provisional Liquidators for the purpose of the restructuring, on 12 April 2010 entered into a working capital facility agreement pursuant to which the Investor had agreed to provide a facility of up to HK\$50 million (or such higher sum as the Investor may agree from time to time) (the “Working Capital Facility”) to Supreme Wit, and the Working Capital Facility had been secured by a debenture executed on 12 April 2010 by Supreme Wit in favour of the Investor.

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.

While continuing to take necessary steps to regain the control of Fuqing Longyu, Jia Jing (Shanghai) and Ningbo Dingwei, the Group has been trying to resume normal business operations of the Group with the aim to resuming the trading in the Shares.

By a letter dated 9 April 2010 from the Stock Exchange, the Company was placed into the third stage of delisting procedures pursuant to Practice Note 17 to the Listing Rules. The Stock Exchange announced this matter on 21 April 2010. The Company was given to submit a viable resumption proposal 10 business days before 20 October 2010, which should also meet the following conditions:

- (1) Demonstrate sufficient operations or assets to comply with Rule 13.24 of the Listing Rules;
- (2) Address auditors’ qualifications and demonstrate adequate internal control system; and
- (3) Withdraw and/or dismiss the winding-up petition and discharge the Provisional Liquidators.

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

- (1) a restructuring of the share capital of the Company through capital reduction, share consolidation, share subdivision and issue of new shares;
- (2) 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
- (3) resumption of trading in the Shares upon completion of the proposed restructuring subject to the restoration of sufficient public float.

On 6 October 2010, Asian Capital and the Provisional Liquidators submitted a resumption proposal to the Stock Exchange (the “Resumption Proposal”). On 5 November 2010, the Listing Committee of the Stock Exchange (the “Listing Committee”) rejected the Resumption Proposal. The Listing Committee considered that the Resumption Proposal had not satisfactorily demonstrated sufficiency of operation or assets as required under Rule 13.24 of the Listing Rules. Asian Capital filed an application for review (the “Review Application”) on behalf of the Company to the Listing (Review) Committee of the Stock Exchange (the “Listing (Review) Committee”) on 15 November 2010. The Review Application was initially fixed by the Listing (Review) Committee to be heard on 18 January 2011 (the “Review Hearing”) and the Company was required to make a submission on or before 16 December 2010. To allow more time in preparing the submission for the Review Hearing, Asian Capital applied to the Listing (Review) Committee to postpone the Review Hearing. The Review Hearing has been postponed to a date to be advised by the Stock Exchange and the Company is to make a submission on or before 21 February 2011.

The Provisional Liquidators have provided regular updates 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 2011, the hearing of the Petition has been further adjourned to 18 July 2011.

### ***Going concern***

The Group incurred a loss attributable to owners of the Company of approximately RMB4,277,000 for the year ended 31 December 2010 (2009: approximately RMB14,161,000) and as at 31 December 2010 the Group had net current liabilities of approximately RMB379,655,000 (2009: approximately RMB383,722,000) and net liabilities of approximately RMB374,211,000 (2009: approximately RMB383,463,000) 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. Adoption of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")**

In the current year, the Group has adopted for the first time the following revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective for its accounting year beginning on 1 January 2010:

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK-Int 4 Amendment	Amendment to HK-Int 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HK-Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRS 5 Amendments included in Improvements to HKFRSs issued in October 2008	Amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009



HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years except as stated below.

**(a) Business Combinations**

HKFRS 3 (Revised) “Business Combinations” continues to require acquisition method to be applied to business combinations with some significant changes:

- Contingent consideration is recognised at its acquisition-date fair value and forms part of the cost of acquisition. The previous HKFRS 3 requires that a contingent consideration be recognised if it is probable and can be measured reliably.
- In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate goodwill. The previous HKFRS 3 does not have a requirement for such fair value measurement.
- There is a choice to measure initially the non-controlling interests in a subsidiary either at their acquisition-date fair value or the non-controlling shareholders’ proportionate share of the net fair value of the subsidiary’s identifiable assets and liabilities at the acquisition date. The previous HKFRS 3 only allows the latter choice.
- If a business combination is accounted for using provisional amounts, the measurement period that the provisional amounts can be adjusted retrospectively is limited to one year from the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. The previous HKFRS 3 does not have a time limit for adjustments in relation to contingent considerations and deferred tax assets. Subsequent adjustments to contingent considerations and deferred tax assets will adjust goodwill.
- Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. The previous HKFRS 3 requires that acquisition-related costs form part of the cost of a business combination.

**(b) Consolidation**

HKAS 27 (Revised) “Consolidated and Separate Financial Statements” contains the following requirements:

- Total comprehensive income is attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance. The previous HKAS 27 requires excess losses to be allocated to the owners of the Company, except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.
- Changes in the Company’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company. The previous HKAS 27 does not have specific requirements for such transactions.

- When the disposal of a subsidiary results in a loss of control, the consideration of the sale and any investment retained in that subsidiary are required to be measured at their fair values. The previous HKAS 27 does not have specific requirements for such fair value measurements.

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

HKFRS 1 Amendments	Amendments to HKFRS 1 - First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets <sup>4</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues <sup>1</sup>
HKFRS 1 Amendments	Amendments to HKFRS 1 – First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>4</sup>
HKAS 12 Amendment	Amendment of HKAS 12 Deferred Tax – Recovery of Underlying Assets <sup>6</sup>
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement <sup>3</sup>
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for annual periods beginning on or after 1 July 2010, amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there is a separate transitional provision for each standard or interpretation.

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2012

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. Turnover

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

	<b>2010</b>	2009
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Sales of goods	<b>144,006</b>	2,542

## 5. Other Income

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Interest income	24	11
Over-provision of interest expenses on convertible notes in prior years	–	397
Storage fee income	569	–
Commission income	619	–
Sundry income	–	21
	<u>1,212</u>	<u>429</u>

## 6. Segment Information

The Group has one reportable operating segment named “Frozen and functional food products” which refers to the processing and trading of food products mainly including frozen and functional food products.

Information about reportable segment profit or loss, assets and liabilities is as follows:

	<b>Frozen and functional food products</b>	
	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Years ended 31 December</b>		
Revenue from external customers	144,006	2,542
Segment profit/(loss)	5,640	4
Income tax expense	1,119	–
Addition to segment non-current assets	4	–
	<u>4</u>	<u>–</u>
<b>As at 31 December</b>		
Segment assets	48,498	2,340
Segment liabilities	39,784	2,336
	<u>39,784</u>	<u>2,336</u>

During the reporting year, the Group is under restructuring process. The Group’s chief operating decision maker is of the view that it is more appropriate to assess the Group’s operating results based on the business of processing and trading of food products as a whole. As such, the operating segment is aggregated as “frozen and functional food products”.

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	<b>Years ended 31 December</b>	
	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
<b>Profit or loss</b>		
Total profit or loss of reportable segment	5,640	4
Unallocated amounts:		
Unallocated corporate income and expenses	(3,185)	(4,606)
Finance costs	(5,613)	(9,559)
	<u>(3,158)</u>	<u>(14,161)</u>
Consolidated loss before tax	<u>(3,158)</u>	<u>(14,161)</u>

	<b>As at 31 December</b>	
	<b>2010</b>	2009
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Assets</b>		
Total assets of reportable segment	<b>48,498</b>	2,340
Unallocated amounts:		
Deferred tax assets	<b>224</b>	233
Goodwill	<b>5,180</b>	–
Unallocated corporate assets	<b>9,066</b>	6,635
	<hr/>	<hr/>
Consolidated total assets	<b>62,968</b>	9,208
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>		
Total liabilities of reportable segment	<b>39,784</b>	2,336
Unallocated amounts:		
Bank borrowings	<b>177,192</b>	183,822
Financial guarantee liabilities	<b>13,500</b>	13,500
Unallocated corporate liabilities	<b>206,703</b>	193,013
	<hr/>	<hr/>
Consolidated total liabilities	<b>437,179</b>	392,671
	<hr/> <hr/>	<hr/> <hr/>

**Geographical information:**

	<b>Revenue</b>		<b>Non-current assets</b>	
	<b>Years ended 31 December</b>		<b>As at 31 December</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b><i>RMB'000</i></b>	<i>RMB'000</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Canada	<b>24,905</b>	–	–	–
Mainland China	<b>96,169</b>	–	–	–
Hong Kong	<b>18,400</b>	88	<b>5,444</b>	259
Others	<b>4,532</b>	2,454	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Consolidated total	<b>144,006</b>	2,542	<b>5,444</b>	259
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

In presenting the geographical information, revenue is based on the locations of the customers.

**7. Finance Costs**

	<b>2010</b>	2009
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest expenses on:		
Bank borrowings wholly repayable within 5 years	<b>5,613</b>	9,019
Derivative financial instrument	–	540
	<hr/>	<hr/>
	<b>5,613</b>	9,559
	<hr/> <hr/>	<hr/> <hr/>

## 8. Loss Before Tax

The Group's loss before tax is stated after charging the following:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Directors' emoluments		
As directors	293	287
For management	—	—
	<u>293</u>	<u>287</u>
Auditor's remuneration		
Current year	280	281
Staff costs including directors' emoluments		
Salaries, bonus and allowances	705	447
Retirement benefits scheme contributions	26	8
Less: forfeited contributions	(128)	—
	<u>603</u>	<u>455</u>
Cost of inventories sold	136,281	2,505
Depreciation	8	8
Operating lease charges on land and buildings	402	569
	<u><u>136,693</u></u>	<u><u>3,527</u></u>

## 9. Income Tax Expense

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Current tax – Hong Kong Profits Tax provided for the year	<u><u>1,119</u></u>	<u><u>—</u></u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2009 as the Group did not generate any assessable profits arising in Hong Kong during that 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 before tax is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Loss before tax	<u>(3,158)</u>	<u>(14,161)</u>
Notional tax credit on loss before tax, calculated at the rates applicable in the tax jurisdictions concerned	(790)	(3,540)
Tax effect of expenses that are not deductible	1,909	3,540
	<u><u>1,119</u></u>	<u><u>—</u></u>

## 10. Loss for the Year Attributable to Owners of the Company

The consolidated loss attributable to owners of the Company includes a loss of approximately RMB9,793,000 (2009: loss of approximately RMB14,056,000) which has been dealt with in the financial statements of the Company.

## 11. Dividends

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

## 12. Loss Per Share Attributable to Owners of the Company

### *Basic loss per share*

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB4,277,000 (2009: approximately RMB14,161,000) and the weighted average number of approximately 1,185,915,000 ordinary shares (2009: approximately 1,185,915,000 ordinary shares) in issue during the year.

### *Diluted loss per share*

Diluted loss per share for the year ended 31 December 2010 is the same as the basic loss per share as the Company did not have any dilutive potential ordinary Shares during the year.

## 13. Goodwill

	<i>RMB'000</i>
<b>Cost</b>	
Arising on acquisition of a subsidiary ( <i>note 17</i> )	5,180
	<hr/>
At 31 December 2010	5,180
	<hr/>
<b>Accumulated impairment losses</b>	
Recognised for the year and as at 31 December 2010	–
	<hr/>
<b>Carrying amount</b>	
At 31 December 2010	5,180
	<hr/> <hr/>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (“CGUs”) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill of approximately RMB5,180,000 had been allocated to sales of food products contributed by Orient Legend.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 12.6%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's sales of food products is 8%.

#### 14. Trade Receivables

The Group's trading terms with customers mainly comprise credit and cash on delivery. 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 the directors.

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

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 1 month	<b>12,692</b>	1,422
More than 1 month but within 3 months	<b>17,351</b>	–
More than 3 months but within 6 months	<b>2,130</b>	–
More than 6 months but within 1 year	<b>1,341</b>	–
More than 1 year	–	–
	<u>33,514</u>	<u>1,422</u>

The aging analysis of trade receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired are as follows:

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Neither past due nor impaired	<b>30,043</b>	1,422
3 to 12 months past due	<b>3,471</b>	–
	<u>33,514</u>	<u>1,422</u>

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

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	<b>2010</b> <i>RMB'000</i>	2009 <i>RMB'000</i>
Hong Kong dollars	<b>14,738</b>	1,422
US dollars	<b>18,776</b>	–
	<u>33,514</u>	<u>1,422</u>

## 15. Trade Payables

The aging analysis of trade payables as at the end of the reporting period, based on the invoice date is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 1 month	11,523	–
More than 1 month but within 3 months	6,173	–
More than 3 months but within 6 months	974	–
More than 6 months but within 1 year	–	–
	<u>18,670</u>	<u>–</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Hong Kong dollars	5,727	–
US dollars	12,943	–
	<u>18,670</u>	<u>–</u>

## 16. Accruals, Other Payables and Deposits Received

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Finance costs payable	16,416	10,843
Accruals and other payables	7,048	3,687
Deposit received	1,623	–
Claim arising from derivative financial instrument ( <i>note (a)</i> )	105,604	109,555
Amount due to a former director of the Company ( <i>note (b)</i> )	57,975	60,144
Amount due to a director of the subsidiaries ( <i>note (b)</i> )	3,573	2,308
Amount due to the Investor ( <i>note (c)</i> )	34,263	8,812
	<u>226,502</u>	<u>195,349</u>

*Notes:*

- (a) Included in the accruals, other payables and deposits received of the Group is a claim arising from the derivative financial instrument with a carrying amount of US\$15,979,544 (equivalent to approximately RMB105,604,000) (2009: US\$15,979,544 (equivalent to approximately RMB109,555,000)). 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 had engaged a Hong Kong legal advisor to assist in reviewing the claim lodged by that commercial bank.



- (b) The amounts due to a former Director and a director of the subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.
- (c) The amount due to the Investor is non-interest bearing.

The outstanding balance included an amount of approximately RMB9.8 million advancement (the “Advancement”) and an amount of HK\$5 million (approximately RMB4.4 million) earnest money (the “Earnest Money”) paid by the Investor pursuant to the Exclusivity Agreement. The Advancement is used for payment of the restructuring fees and other professional fees during the restructuring process. If the completion of the restructuring fails to take place solely as a consequence of (i) the Investor failing to perform its obligations in material aspects; or (ii) the Investor breaching any of its obligations under the Exclusivity Agreement or any restructuring agreement in material aspects, the Earnest Money shall be forfeited and released to the Provisional Liquidators for the benefit of the Company’s creditors. If the Exclusivity Agreement is terminated or if the completion of the restructuring fails to take place because of any reason(s) other than the failure or the breach by the Investor as aforesaid stated, the Earnest Money shall be refunded to the Investor. Upon the completion of the restructuring, the Earnest Money and the Advancement shall form part of the subscription proceeds payable by the Investor. Both the Earnest Money and the Advancement are unsecured.

The remaining outstanding balance of approximately RMB20.1 million is the loan (the “Loan”) paid by the Investor pursuant to the Working Capital Facility and for the use of the operation of the SPVs. The Loan is secured by the floating charge on all the assets of Supreme Wit Limited, a direct wholly-owned subsidiary of the Company, and has no fixed terms of repayment.

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

## **17. Acquisition of a subsidiary**

On 4 October 2010, the Group acquired 100% of the issued share capital of Orient Legend for a cash consideration of HK\$10,000,000 (equivalent to approximately RMB8,494,000). Orient Legend was engaged in trading of frozen food and food processing during the year. The acquisition is for the proposed restructuring of the Group.

The fair value of the identifiable assets and liabilities of Orient Legend acquired as at its date of acquisition is as follows:

Net assets acquired:	<i>RMB'000</i>
Property, plant and equipment	18
Trade receivables	5,802
Prepayments, deposits and other receivables	361
Bank and cash balances	4,424
Trade payables	(4,752)
Accruals, other payables and deposits received	(2,295)
Current tax liabilities	(244)
	<hr/>
	3,314
Goodwill ( <i>note 13</i> )	5,180
	<hr/>
	8,494
	<hr/> <hr/>
Satisfied by:	
Cash	8,494
	<hr/> <hr/>
Net cash inflow arising on acquisition:	
Cash consideration paid*	(4,247)
Cash and cash equivalents acquired	4,424
	<hr/>
	177
	<hr/> <hr/>

\* The balance of consideration of approximately RMB4,247,000 shall be paid on the date following the expiry of 18 months from the completion date and was recognised as other payables as at 31 December 2010.

The fair value of the trade and other receivables acquired is HK\$6,830,484 (equivalent to approximately RMB5,802,000).

The goodwill arising on the acquisition of Orient Legend is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Orient Legend contributed approximately RMB97,214,000 and RMB833,000 to the Group's turnover and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2010, total Group turnover for the year would have been approximately RMB282,139,000, and loss for the year would have been approximately RMB3,640,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is intended to be a projection of future results.

## **EXTRACT OF INDEPENDENT AUDITOR’S REPORT ON THE COMPANY’S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

In the independent auditor’s report, the auditor has included the following paragraphs in the auditor’s opinion to draw the shareholders’ attention:

### **“Basis of disclaimer of opinion**

#### ***1. Opening balances and corresponding figures***

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2009 (the “2009 Financial Statements”), which form the basis for the corresponding figures presented in the current year’s consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit and the material uncertainty in relation to going concern, details of which are set out in our audit report dated 23 April 2010. Accordingly, we were then unable to form an opinion as to whether the 2009 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group’s results and cash flows for the year then ended.

#### ***2. Deconsolidation of the subsidiaries***

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 and throughout the years ended 31 December 2009 and 2010.

Accordingly, no sufficient evidence has been provided to satisfy ourselves, in relation to the deconsolidated subsidiaries, as to the completeness of the transactions of the Group for the year ended 31 December 2010 and the Group’s financial positions as at that date.

#### ***3. Accruals, other payables and deposits received***

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the amount due to a former director of the Company of approximately RMB57,975,000 as at 31 December 2010 as included in the accruals, other payables and deposits received of approximately RMB226,502,000 in the consolidated statement of financial position.

#### ***4. 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 of RMB13,500,000 as at 31 December 2010 in the consolidated statement of financial position.

## **5. *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 2010.

## **6. *Related party transactions***

No sufficient evidence has been provided to satisfy ourselves as to the existence, accuracy and completeness of the disclosures of the related party transactions for the year ended 31 December 2010 as required by Hong Kong Accounting Standard 24 “Related Party Disclosures”.

Any adjustments to the figures as described from points 1 to 6 above might have a significant consequential effect on the Group’s results for the two years ended 31 December 2009 and 2010, the Group’s cash flows for the two years ended 31 December 2009 and 2010 and the financial positions of the Group as at 31 December 2009 and 2010, 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”) was submitted to The Stock Exchange of Hong Kong Limited on 6 October 2010.

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**

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 2010 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.”

### **FINAL DIVIDEND**

Payment of a final dividend is not proposed for the year ended 31 December 2010 (2009: nil).

## **BUSINESS REVIEW**

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

Trading in the shares of the Company (the “Shares”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) 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, 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 joint and several provisional liquidators of the Company (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 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 Le, who were also 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 Le 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 the date of this report 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 advisor that the final decision for the appeal had been handed down on 21 December 2009 which upheld the Judgment Letter in the Provisional Liquidators’ favour with regard to the replacements of Fuqing Longyu’s legal representative and board of directors. The enforcement of the Final Decision was applied with the Fuzhou Court in early March and an enforcement notice had been issued on 12 April 2010 by the Fuzhou Court to the Administration of Industry and Commerce in Fuqing (福清市工商行政管理局) (the “Fuqing AIC”). The Provisional Liquidators were informed by the PRC legal advisor, based on his recent visit to the Fuqing AIC in May 2010 and to the Foreign Trade and Economic Cooperation Bureau in Fuqing (福清市對外貿易經濟合作局) (“Fuqing FTECB”) in July 2010, that the changes of the board and the legal representative of Fuqing Longyu have not been effected despite the enforcement notices having been issued to both authorities by the Fuzhou Court.

As such, the Provisional Liquidators have written to the Fujian Provincial Department of Foreign Trade and Economic Cooperation (the “Fujian FTECB”) (福建省對外貿易經濟合作廳), the Hong Kong Economic and Trade Office in Guangdong of the Government of the Hong Kong Special Administrative Region (the “HKETO”) (香港特別行政區政府駐粵經濟貿易辦事處) and the Ministry of Commerce of the PRC (中華人民共和國商務部) informing the difficulties encountered and seeking their assistance in replacing the board and the legal representative of Fuqing Longyu. The HKETO issued letters to the Fujian FTECB and the Higher People’s Court of Fujian province in late August 2010.

Given that the Fuqing FTECB, it failed unjustifiably to respond to the Provisional Liquidators’ request, the Provisional Liquidators sought legal advice from the PRC legal advisor and are preparing to take out a legal action against the Fuqing FTECB.

The Provisional Liquidators were informed by the Fujian Branch of Bank of China (the “BOC Fujian”) (中國銀行－福建省分行) in the PRC that the BOC Fujian had obtained a judgment against Fuqing Longyu in relation to a loan granted to Fuqing Longyu and is taking steps to dispose of certain collaterals to repay the loan. Since the replacement of the board and the legal representative of Fuqing Longyu has not been effected by Fuqing AIC, the BOC Fujian has not provided the Provisional Liquidators with the details of the abovementioned legal action.

**(ii) Jia Jing Commercial (Shanghai) Co., Limited (“Jia Jing (Shanghai)”)**

After consulting the PRC legal advisor, the Provisional Liquidators are taking appropriate steps to apply for reissuance of company chops and statutory certificates of Jia Jing (Shanghai).

**(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 (the “Ningbo Court”) (浙江省寧波市中級人民法院) but the filing was denied by the Ningbo Court. After consulting the PRC legal advisor, the Provisional Liquidators are taking appropriate steps to prepare a revised statement of claim to be filed with the Ningbo Court.

As mentioned in the section headed “Restructuring of the Group” below, with the Working Capital Facility provided by the Investor, the Group has restored its trading business operations in the second half of 2009.

To further extend the Group’s geographical coverage and enlarge the scale of its operations, in April 2010, Pacific Prosper Limited (“Pacific Prosper”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, pursuant to which Pacific Prosper acquired the entire issued share capital of Orient Legend International Limited (“Orient Legend”), which is engaged in the trading of frozen food and food processing for an aggregate cash consideration of HK\$10 million (the “Acquisition”). The completion of the Acquisition took place on 4 October 2010.

In order to have better control over the raw materials quality and enhance the profitability of the Group, in April 2010, Trendy Leader and an independent third party entered into a leasing agreement, pursuant to which Trendy Leader leased fish ponds with a total area of approximately 7 hectares located in Jiangmen, Guangdong Province, the PRC for a period of 3 years.

To expand the Group’s existing business operations, Trendy Leader entered into a processing agreement with an independent third party in April 2010, which owns processing lines located in Jiangmen, Guangdong Province, the PRC (the “Processing Agreement”). Pursuant to the Processing Agreement, Trendy Leader will, among others, provide the raw materials, supplements and packaging materials while the said independent third party will provide processing services to process the frozen fish products in accordance with the specifications and time constraint given by Trendy Leader.

To intensify and strengthen the value-added services of the Group through the processing plant in Jiangmen by taking advantage of the established trading volume already achieved by Orient Legend and Trendy Leader, on 5 October 2010, Pacific Prosper, Mr. Wong Chi Ho and Mr. Wong King Luen entered into an agreement (the “Sincere Gold Agreement”). Details of the Sincere Gold Agreement are published in the circular of the Company dated 17 December 2010. The transactions contemplated under the Sincere Gold Agreement were approved by the Shareholders at the special general meeting held on 4 January 2011.

For the year ended 31 December 2010, the Group recorded turnover and gross profit of approximately RMB144,006,000 (2009: approximately RMB2,542,000) and approximately RMB7,725,000 (2009: approximately RMB37,000) respectively. Loss for the year attributable to owners of the Company was approximately RMB4,277,000 (2009: approximately RMB14,161,000). The Group’s total turnover represented an increase of approximately 5,600% as compared to 2009, while gross profit increased approximately 20,800%. Loss for the year attributable to owners of the Company decreased approximately 70% as compared to 2009.

## **RESTRUCTURING OF THE GROUP**

The Provisional Liquidators appointed Asian Capital (Corporate Finance) Limited (“Asian Capital”) as the financial advisor 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 proceeding 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, 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, and to negotiate in good faith for entering into a legally binding formal agreement for the implementation of the resumption proposal. Since the exclusivity period has expired on 29 July 2010, in view of the Investor’s willingness and financial ability to pursue the restructuring and a supplemental agreement was entered into to grant an extension of the exclusivity period to the Investor to cover the remaining period before the deadline for submitting 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. With the sanction from the Court, the Investor and Supreme Wit Limited (“Supreme Wit”), a direct wholly owned subsidiary of the Company which was set up after the appointment of the Provisional Liquidators for the purpose of restructuring, on 12 April 2010 entered into a working capital facility agreement pursuant to which the Investor had agreed to provide a facility of up to HK\$50 million (or such higher sum as the Investor may agree from time to time) (the “Working Capital Facility”) to Supreme Wit, and the Working Capital Facility had been secured by a debenture executed on 12 April 2010 by Supreme Wit in favour of the Investor.

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.

While continuing to take necessary steps to regain the control of Fuqing Longyu, Jia Jing (Shanghai) and Ningbo Dingwei, the Group has been trying to resume normal business operations of the Group with the aim to resuming the trading in the Shares.

By a letter dated 9 April 2010 from the Stock Exchange, the Company was placed into the third stage of delisting procedures pursuant to Practice Note 17 to the Listing Rules. The Stock Exchange announced



this matter on 21 April 2010. The Company is now given to submit a viable resumption proposal 10 business days before 20 October 2010, which should meet the following conditions:

1. Demonstrate sufficient operations or assets to comply with Rule 13.24;
2. Address auditors' qualifications and demonstrate adequate internal control system; and
3. Withdraw and/or dismiss the winding-up petition and discharge the Provisional Liquidators.

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

1. a restructuring of the share capital of the Company through capital reduction, share consolidation, share subdivision and issue of new shares;
2. 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
3. resumption of trading in the Shares upon completion of the proposed restructuring subject to the restoration of sufficient public float.

On 6 October 2010, Asian Capital and the Provisional Liquidators submitted a resumption proposal to the Stock Exchange (the "Resumption Proposal"). On 5 November 2010, the Listing Committee of the Stock Exchange (the "Listing Committee") rejected the Resumption Proposal. The Listing Committee considered that the Resumption Proposal had not satisfactorily demonstrated sufficiency of operation or assets as required under Rule 13.24 of the Listing Rules. Asian Capital filed an application for review (the "Review Application") on behalf of the Company to the Listing (Review) Committee of the Stock Exchange (the "Listing (Review) Committee") on 15 November 2010. The Review Application was initially fixed by the Listing (Review) Committee to be heard on 18 January 2011 (the "Review Hearing") and the Company was required to make a submission on or before 16 December 2010.

To allow more time in preparing the submission for the Review Hearing, Asian Capital applied to the Listing (Review) Committee to postpone the Review Hearing. The Review Hearing has been postponed to a date to be advised by the Stock Exchange and the Company is to make a submission on or before 21 February 2011.

The Provisional Liquidators have provided regular updates 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 2011, the hearing of the Petition has been further adjourned to 18 July 2011.

## **PROSPECTS**

As discussed in the section headed "Business Review" above, since entering the Exclusivity Agreement, the Group has been steadily reviving its business operations. With the financial support from the Investor, the Group has resurrected its trading business, completed the acquisition of Orient Legend and entered into the Sincere Gold Agreement. The Group is in the process of integrating and streamlining its business

operations. The Company believes that the in-house processing capabilities, the storage facility and the synergy effects generated from the business integration will position the Group in a better position to capture more market opportunities with higher profit margin. It is also expected that after completion of the Sincere Gold Agreement, and with the in-house processing capabilities, more products under trading orders received by the Group will be processed by the Jiangmen processing plant, which will result in higher profit margin of the Company.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES**

To the best knowledge of the Board, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the financial year under review.

## **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's approval and the relevant 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 2010 and 31 December 2009.

## **EVENTS AFTER THE REPORTING PERIOD**

To allow having more time in preparing the review submission as mentioned in note 2 to the financial statements, Asian Capital applied to the Listing (Review) Committee to postpone the Review Hearing. The Review Hearing has been postponed to a date to be advised by the Stock Exchange and the Company is required to make a submission on or before 21 February 2011.

The Provisional Liquidators have provided regular updates 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 2011, the hearing of the Petition has been further adjourned to 18 July 2011.

## **CORPORATE GOVERNANCE PRACTICES**

As at 31 December 2010, there were five Directors, of which one was executive Director, namely Mr. Lee Wa Lun, Warren and four of them were independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Leung King Yue, Alex, Mr. Lo Wai On and Mr. Tang Chi Chung, Matthew. Mr. Wong Chi Keung was also the chairman of the Company. Mr. Lo Wai On resigned as independent non-executive Director with effect from 31 January 2011.

### *Remuneration Committee*

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

WONG Chi Keung	(Chairman)
LEUNG King Yue, Alex	
LO Wai On	(resigned with effect from 31 January 2011)
TANG Chi Chung, Matthew	

The remuneration committee is responsible for advising the Board on the remuneration policy and framework of the 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 announcement were:

WONG Chi Keung	(Chairman)
LEUNG King Yue, Alex	
LO Wai On	(resigned with effect from 31 January 2011)
TANG Chi Chung, Matthew	

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 2010 have been reviewed by the audit committee of the Company.

On 6 January 2009, the Provisional Liquidators were appointed by the Court to, among others, take control and possession of the assets of the Group, accordingly, the current Board is unable to comment as to whether the Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2010.

After the Stock Exchange approves the resumption of trading in the Shares and the Provisional Liquidators are discharged, appropriate personnel will be appointed to the Board and arrangement will be made to comply with the Code.

## GENERAL

**At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:30 a.m. on 15 December 2008 and will remain suspended until further notice.**

For and on behalf of  
**FIRST NATURAL FOODS  
HOLDINGS LIMITED**

*(Provisional Liquidators Appointed)*

**Stephen Liu Yiu Keung**

**David Yen Ching Wai**

*Joint and Several Provisional Liquidators*

By order of the Board  
**FIRST NATURAL FOODS  
HOLDINGS LIMITED**

*(Provisional Liquidators Appointed)*

**Wong Chi Keung**

*Chairman*

\* *for identification purposes only*

Hong Kong, 16 February 2011

*As at the date of this announcement, the board or directors comprises four directors of which Mr. Lee Wa Lun, Warren is an executive director; and Mr. Wong Chi Keung, Mr. Leung King Yue, Alex and, Mr. Tang Chi Chung, Matthew are independent non-executive directors.*