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Dear Shareholders,

On behalf of the Board of Directors (the "Board" or the "Directors") of First Natural Foods Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.

Results

For the year ended 31 December 2004, the Group recorded a sustained increase in both of its turnover and net profit. Turnover achieved was approximately RMB434,122,000 (2003: RMB378,378,000), representing approximately 15% increase from 2003. Net profit for the year amounted to RMB121,904,000 (2003: RMB110,457,000), representing a year-on-year growth of approximately 10% from 2003. Basic earnings per share was RMB0.135 (2003: RMB0.135). The Board does recommend the payment of a final dividend of HK\$0.03 per share (equivalent to approximately RMB0.0318), resulting in a dividend payout ratio approximately of 22%.

Business Review

The year of 2004 was a challenging year for all mainland enterprises. During the year under review, shortages in energy resources and labor supply were the two major obstacles to expansion in the developed regions in the People's Republic of China (the "PRC"). As preventative measures, the Group purchased a back-up power generator from UK Cummins in order to ensure a steady supply of electricity to its production. On the other hand, the Group's human resources policy paid off with the reduction in the staff turnover rate. In earlier of the year of 2004, the Group has engaged an international human resources consultancy firm from Singapore to revamp the Group's employee management system, and raise the quality standard of its manpower resources.

***'On the
Right Track to
Sustainable Development'***

As the Group's topmost priority, it has always strongly emphasized on product quality and hygiene standards, raised its risk awareness and strengthened its food safety system. During the year under review, the Group set up a new integrated research and development centre which commenced operations in April 2004. The Group also expanded and reinforced its water purification and filtering systems, in order to further improve the standard of its water treatment facilities. Given the steadily increasing demand for frozen value-added food products, the Group has other significant investments such as the improvement and upgrading of cold storage techniques and capacities for examples, constructed a new integrated storage room and a sophisticated bacteria-free seafood processing workshop.

The Group has continuously been developing different new varieties of premium frozen value-added food products to cater to all customers' needs. During the year, the Group successfully launched a new range of food products, including flying fish roes, monkfish tails and monkfish livers. The market response was extremely positive. In addition, the Group also launched a series of premier food products under its own "Longyu" brand. In line with such marketing strategy, these products have been successfully sold in a high-end supermarket namely Great Pacific Place and reputable large-scale seafood distributors in Hong Kong.

Future Prospects

The Group's basic infrastructural investment has laid a firm foundation for its future developments. Given the completion in the upgrading of facilities, the effective utilization of energy and labor resources, as well as the improvement in food handling processes and techniques, the Group's next mission will be focused on enhancing its product portfolio and shortening the new product development cycle. This will be extremely essential in today's competitive environment, as it is necessary to move faster and respond quicker as to ensure a competitive advantage over the other competitors.

The Group has committed on continuous products innovation as the future driving force. For this reason, the Group has developed a new series of convenient, high value and healthy frozen seasoned food products. Vegetarian and seafood spring-rolls are one of the newly developed products which have been successfully launched in the markets.

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Japan and the US are the two largest export markets of the Group. Other markets such as Korea, Australia and Hong Kong have been increasing their respective contributions steadily. Europe will also be one of the Group's core markets. The Group realized the importance of an earlier entry into a new market so as to gain bigger market share in relative to other competitors. Therefore, the Group will still be either actively sourcing for new customers or helping the customers to develop its new markets.

Finally, the Group has been positioned itself as a leading top-grade food processor in the PRC which delivers premium food products of the highest hygiene level. Relying on these competitive advantages, we will therefore actively enhance our facilities and work hard to achieve even more desirable financial results in 2005 and beyond, so as to deliver more lucrative returns to our shareholders.

Appreciation

The Group's achievements in the past few years are all attributable to the unity and persistent efforts from all the directors, management staff and employees. I would like to take this opportunity to express my heartfelt appreciation to each and every one of them, as well as sincere gratitude to all shareholders, customers, business partners and suppliers for their unwavering support and confidence in us.

Yeung Chung Lung

Chairman

Hong Kong, 21 April, 2005

