

The board of directors (the "Board") has pleasure in submitting the annual report together with the audited financial statements of First Natural Foods Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

## SEGMENTAL INFORMATION

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 14 to the financial statements.

## FINANCIAL STATEMENTS

The consolidated income statement of the Group for the year ended 31 December 2004 and the state of the Group's affairs as at that date are set out in the financial statements on pages 31 to 64.

## DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.03 per share (equivalent to approximately RMB0.0318 per share) for the year ended 31 December 2004 (2003: HK\$0.02 per share (equivalent to approximately RMB0.0212 per share)), subject to members' approval at the forthcoming annual general meeting to be held on 23 May 2005, to the members whose names appear on the Register of Members of the Company on 23 May 2005 and payable on or before 15 June 2005. No interim dividend was declared for the six months ended 30 June 2004 (2003: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 19 May 2005 (Thursday) to 23 May 2005 (Monday), both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, namely, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 18 May 2005 (Wednesday).

## FIXED ASSETS

Details of the movements in fixed assets are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 27 to the financial statements.

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## DIRECTORS

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

*Executive directors:*

Mr. Yeung Chung Lung (*Chairman*)

Mr. Yang Le

Mr. Ni Chao Peng

Mr. Yip Tze Wai, Albert

*Independent non-executive directors:*

Mr. Tsui Chun Chung, Arthur

Mr. Lu Ze Jian

Mr. Leung Chiu Shing (Appointed on 27 September 2004)

In accordance with bye-law 86(2) of the Company's Bye-laws, Mr. Leung Chiu Shing will retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

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

## DIRECTORS' SERVICE CONTRACTS

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

Each of Mr. Tsui Chun Chung, Arthur and Mr. Lu Ze Jian has entered into a letter of appointment with the Company for a term of one year commencing on 11 February 2002 and shall continue thereafter unless and until terminated in accordance with the terms and conditions stated in the letter of appointment.

Mr. Leung Chiu Shing has entered into a letter of appointment with the Company for a term of one year commencing on 27 September 2004 and shall continue thereafter unless and until terminated in accordance with the terms and conditions stated in the letter of appointment.

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

## BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of Directors and senior management are set out on pages 18 to 19.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2004, none of the Directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2004, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long positions in shares of the Company

Name of Director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Yeung Chung Lung	—	—	369,300,000	369,300,000	40.21%
			(Note)		

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

## Long positions in underlying shares of the Company

### Share Options in the Company

Name of Director	Date of grant	Exercise price HK\$	Exercisable period	No. of shares in respect of options outstanding as at 31 December 2004
Yeung Chung Lung	23/07/2004	0.489	23/07/2004–22/07/2014	3,000,000
Yang Le	23/07/2004	0.489	23/07/2004–22/07/2014	2,000,000
Ni Chao Peng	23/07/2004	0.489	23/07/2004–22/07/2014	2,000,000
Yip Tze Wai, Albert	23/07/2004	0.489	23/07/2004–22/07/2014	1,000,000

*Note:* Options in respect of 500,000 shares were granted to Mr. Tsui Chun Chung, Arthur, an independent non-executive director of the Company, on 19 January 2005 at the exercise price of HK\$0.56 per share exercisable from 19 January 2005 to 18 January 2015.

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2004, so far as is known to the Directors, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Regal Splendid Limited (Note 1)	Beneficial owner	369,300,000	40.21%
Wisdom Latch Limited (Note 2)	Beneficial owner	50,637,300	5.51%
Tung Fai (Note 2)	Beneficial owner	50,637,300	5.51%
Value Partners Limited (Note 3)	Investment manager	48,965,000	5.33%
Cheah Cheng Hye (Note 3)	Corporation	48,965,000	5.33%

Notes:

1. Regal Splendid Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Yeung Chung Lung.
2. Wisdom Latch Limited is a company incorporated in the British Virgin Islands with limited liability which is legally and beneficially owned as to 100% by Mr. Tung Fai.
3. Value Partners Limited is a company incorporated in the British Virgin Islands with limited liability which is owned as to 31.82% by Mr. Cheah Cheng Hye.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

## CONNECTED TRANSACTION

Neither significant related party transactions nor connected transactions under the Listing Rules had entered by the Group during the year ended 31 December 2004.

## SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 28 to the financial statements.

During the year ended 31 December 2004, no options were granted under the 2002 Scheme.

As at 31 December 2004, particulars of the options granted to the participants under the 2004 Scheme were as follows:

Name or category of participant	Number of shares in respect of options						Closing price immediately before the date of grant	
	Balance as at 1 January 2004	Granted during the year	Outstanding as at 31 December 2004	Date of grant	Exercisable period	Exercise price HK\$	Exercise price HK\$	
<b>Directors:</b>								
Yeung Chung Lung	—	3,000,000	3,000,000	23/07/2004	23/07/2004–22/07/2014	0.489	0.485	
Yang Le	—	2,000,000	2,000,000	23/07/2004	23/07/2004–22/07/2014	0.489	0.485	
Ni Chao Peng	—	2,000,000	2,000,000	23/07/2004	23/07/2004–22/07/2014	0.489	0.485	
Yip Tze Wai, Albert	—	1,000,000	1,000,000	23/07/2004	23/07/2004–22/07/2014	0.489	0.485	
<b>Employees:</b>								
In aggregate	—	24,500,000	24,500,000	23/07/2004	23/07/2004–22/07/2014	0.489	0.485	
Total	—	32,500,000	32,500,000					

## SHARE OPTION SCHEME (Continued)

### Notes:

1. No option has been exercised, lapsed or cancelled during the year ended 31 December 2004.
2. Since no option has been exercised during the year ended 31 December 2004, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.
3. The fair value of the options granted on 23 July 2004 is HK\$5,100,000. The fair value of options granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following parameters:

(a)	Exercise Price	HK\$0.489
(b)	Hong Kong Dollar Interest Rate	4.186% p.a.
(c)	Nature of the share options	Call
(d)	Volatility	47.62%
(e)	Expected Dividend Yield	2.83%

The Black-Scholes option pricing model was developed to estimate the fair value of traded options which do not have vesting restrictions and are fully transferable. This pricing model requires the input of highly subjective assumptions, including the volatility of the share price. Any changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of professional appraiser, the model does not necessarily provide a reliable single measure of the fair value of the share options.

Based on the closing price of the Company's share on the date of grant and the above assumptions, the computed fair value under the options granted during the year of 2004 were approximately HK\$5,100,000.

## 2.5% COUPON BONDS WITH WARRANTS ATTACHED

Details of coupon bonds, warrants and movement in warrants are set out in note 23 and 29 respectively to the financial statements.

## PLACING AND SUBSCRIPTION OF SHARES

On 25 February 2004, Regal Splendid Limited, the single largest shareholder of the Company, entered into an agreement with Quam Securities Company Limited and the Company. Pursuant to the Agreement, Regal Splendid Limited agreed to place through Quam Securities Company Limited up to 80,000,000 existing shares at a placing price of HK\$0.64 per share and Regal Splendid Limited also agreed to subscribe new shares equal to the number of placing shares successfully placed under the placing at a subscription price of HK\$0.64 per share.

The placing was completed on 2 March 2004 and the subscription was completed on 10 March 2004. The net proceeds of approximately HK\$46,900,000 were applied as general working capital of the Group.

## PLACING OF EXISTING SHARES BY REGAL SPLENDID LIMITED

After the close of trading on the Stock Exchange on 15 October 2004, Regal Splendid Limited, which is legally and beneficially owned as to 100% by Mr. Yeung Chung Lung who is the executive director and controlling shareholder of the Company, reached a consensus but no formal placing agreement has been entered for the sale of a total of 28,500,000 existing shares of the Company, to an independent third party, Value Partners Limited, at the price of HK\$0.49 per share. Such sale was completed on 18 October 2004.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2004 are set out in note 22 to the financial statements.

## DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 1 December 2003, the Company had entered into a facility agreement (the "Facility Agreement") with a syndicate of banks relating to a 3-year term loan facility of up to HK\$60,000,000. Under the Facility Agreement, it would be an event of default if Mr. Yeung Chung Lung, the controlling shareholder of the Company as defined in the Listing Rules, ceases to be the single largest and controlling shareholder of the Company.

As at 31 December 2004, the outstanding amount owed by the Company in respect of this loan facility was approximately HK\$49,500,000 (equivalent to approximately RMB52,470,000).

## MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	26%	
Five largest customers in aggregate	80%	
The largest supplier		25%
Five largest suppliers in aggregate		51%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 65 of the annual report.

## RETIREMENT SCHEME

Details of the retirement benefit scheme of the Group and the employer's costs charged to the consolidated income statement for the year ended 31 December 2004 are set out in note 13 to the financial statements.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2004, the Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by directors.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## PUBLIC FLOAT

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

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the Company, namely, Mr. Tsui Chun Chung, Arthur, Mr. Lu Ze Jian and Mr. Leung Chiu Shing. The audit committee has reviewed with the Company's management, the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements and the audited annual financial statements of the Company during the year.

## CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year under review except for Mr. Tsui Chun Chung, Arthur and Mr. Lu Ze Jian, both are independent non-executive directors of the Company, are not appointed for any specific terms as they are subject to retirement by rotation in accordance with bye-law 87(1) of the Bye-laws of the Company.

## POST BALANCE SHEET EVENTS

No significant post balance sheet events of the Group are recorded.

## AUDITORS

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

On behalf of the Board

**Yeung Chung Lung**

*Chairman*

Hong Kong, 21 April 2005