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FIRST NATURAL FOODS HOLDINGS LIMITED

第一天然食品有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1076)

PROPOSED ISSUE OF CONVERTIBLE NOTE AND RESUMPTION OF TRADING

ISSUE OF THE CONVERTIBLE NOTE

On 11 August 2006, the Company entered into the Subscription Agreement with the Subscriber in relation to the issue and subscription of the Convertible Note.

Pursuant to the Subscription Agreement, the Company has agreed to issue and the Subscriber has agreed to subscribe for, the Convertible Note in an aggregate principal amount of HK\$116,000,000. The Convertible Note will be convertible into the Conversion Shares at the initial Conversion Price of HK\$0.85 per Share (subject to adjustments).

The initial Conversion Price of HK\$0.85 represents (i) a premium of approximately 4.94% to the closing price of HK\$0.81 per Share as quoted on the Stock Exchange on 11 August 2006, being the last trading day immediately before the date of this announcement; (ii) a premium of approximately 11.84 % to the average of the closing price per Share of approximately HK\$0.76 as quoted on the Stock Exchange for the last ten trading days up to and including 11 August 2006, being the last trading day immediately before the date of this announcement; and (iii) a premium of approximately 13.33% to the average of the closing price per Share of approximately HK\$0.75 as quoted on the Stock Exchange for the last 30 trading days prior to the date of the Subscription Agreement.

Trading in the Shares on the Stock Exchange was suspended, at the request of the Company, with effect from 9:30 a.m. on 14 August 2006 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 16 August 2006, 9:30a.m..

THE SUBSCRIPTION AGREEMENT

Date

11 August 2006

Parties:

- (a) The Company, as the issuer of the Convertible Note; and
- (b) DKR SoundShore Oasis Holding Fund Limited, a company incorporated in Bermuda with limited liability and is principally engaged in investment holding.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, neither the Subscriber nor its beneficial owners are parties connected with any substantial shareholder, chief executive and/or directors of the Company and of its subsidiaries and their respective associates as defined in the Listing Rules. The Subscriber is not acting nor is presumed to be acting in concert with any other Shareholders.

CONDITIONS PRECEDENT

Completion of the Subscription Agreement is conditional upon the satisfaction of the following conditions:

- (a) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Conversion Shares ;
- (b) if so required, the Bermuda Monetary Authority having granted its consent to the issue of the Convertible Note and the issue and allotment and free transferability of the Conversion Shares;
- (c) the Subscriber having been satisfied with the results of its due diligence investigations on the Group and written notice to that effect having been given to the Company within 30 days from the date of the Subscription Agreement (or such other extended time as the Company and the Subscriber may agree);
- (d) the warranties to be given by the Company remaining true and accurate and not misleading in all material respects as at the date of Completion;
- (e) there shall not have occurred any material disruption or adverse change, as determined by the Subscriber in its discretion, in the financial or capital markets generally, or in the markets for bank loan syndication or affecting the syndication or funding of bank loans (or the refinancing thereof) that may have an adverse impact on the Subscriber's ability to consummate the transaction contemplated under the Subscription Agreement on or prior to the date of Completion; and
- (f) there shall not have occurred any change, or any development or event reasonably likely to involve a prospective change, in the condition (financial or otherwise), operations, business, prospects or properties of the Group, which is material and adverse on or prior to the date of Completion.

If any of the above conditions precedent is not fulfilled (or, in respect of the conditions precedent set out in paragraphs (c) to (f) above, waived by the Subscriber in writing) on or before the Long Stop Date (or such other date as the Company and the Subscriber may agree), the Subscription Agreement shall lapse and become null and void and both the Company and the Subscriber will be released from all obligations under the Subscription Agreement (save for liabilities for any antecedent breaches of the Subscription Agreement). Subject to the fulfillment or waiver of the conditions precedent abovementioned, completion of the Subscription Agreement will take place on the third Business Day (or such other date as the Company and the Subscriber may agree) after fulfillment or waive of all the said abovementioned conditions precedent. As at the date of this Announcement, condition (b) has already been fulfilled.

PRINCIPAL TERMS OF THE CONVERTIBLE NOTE

The principal terms of the Convertible Note are summarised as follows:

- Principal amount : HK\$116,000,000.
- Interest : 3% per annum and payable on a half-yearly basis.
- Maturity Date : The fifth anniversary of the date of issue of the Convertible Note.
- Status : The Convertible Note constitutes direct, unconditional, unsecured and unsubordinated obligations of the Company and rank pari passu and rateably without preference equally with all other present and future unsecured and subordinated obligations of the Company.
- Conversion Price : HK\$0.85 per Conversion Share, subject to adjustments. The initial Conversion Price of HK\$0.85 per Share was arrived at after arm's length negotiation between the Company and the Subscriber.
- The initial Conversion Price of HK\$0.85 represents (i) a premium of approximately 4.94% to the closing price of HK\$0.81 per Share as quoted on the Stock Exchange on 11 August 2006, being the last trading day immediately before the date of this announcement; (ii) a premium of approximately 11.84 % to the average of the closing price per Share of approximately HK\$0.76 as quoted on the Stock Exchange for the last ten trading days up to and including 11 August 2006, being the last trading day immediately before the date of this announcement; and (iii) a premium of approximately 13.33% to the average of the closing price per Share of approximately HK\$0.75 as quoted on the Stock Exchange for the last 30 trading days prior to the date of the Subscription Agreement.
- Conversion Rights : The Noteholder shall have the right to convert on any Business Day during a period commencing on the date of issue of the Convertible Note and ending on the Maturity Date (both days inclusive), the whole or any part of the principal amount of the relevant Convertible Note into the Conversion Shares at the Conversion Price, provided that such parts of the principal amount of the Convertible Note to be converted shall not be less than a whole multiple of HK\$1,000,000 at any one time (unless the aggregate outstanding principal amount of the Convertible Note is less than HK\$1,000,000 in which case the whole (but not part only) of that amount may be converted).
- Redemption before the Maturity Date : On or after the first anniversary of the date of issue of the Convertible Note and prior to the Maturity Date, the Company may redeem all but not part of the Convertible Note at a redemption price equal to 100% of the outstanding principal amount of the Convertible Note and all unpaid and accrued interests due thereon.

In the event that the 2006 Net Profit shall be an amount between HK\$80,000,000 and HK\$128,000,000, the Noteholder may require the Company to redeem all or part of the Convertible Note at a redemption price equal to 101.5% of the outstanding principal amount of the Convertible Note and all unpaid and accrued interests due thereon.

In the event that the 2007 Net Profit shall be an amount between HK\$115,000,000 and HK\$154,000,000, the Noteholder may require the Company to redeem all or part of the Convertible Note at a redemption price equal to 103% of the outstanding principal amount of the Convertible Note and all unpaid and accrued interests due thereon.

In the event that the (i) 2006 Net Profit shall be an amount equal to or less than HK\$80,000,000; or (ii) the 2007 Net Profit shall be an amount equal to or less than HK\$115,000,000; or (iii) the Net Debt/EBITDA ratio of the Group exceeds 200%; or (iv) other event of default occurs, the Noteholder holding not less than 50% in the principal amount of the Convertible Note then outstanding may require the Company to redeem all or part of the Convertible Note at a redemption price equal to the higher of (i) 118% of the outstanding principal amount of the Convertible Note and all unpaid and accrued interests due thereon; and (ii) the outstanding principal amount of the Convertible Note divided by the Conversion Price as at the date on which the such event of default occurs and multiplied by the closing price of the trading day immediately prior to the date on which such event of default occurs

On the second anniversary of the date of issue of the Convertible Note, the Noteholder may require the Company to redeem all or part of the Convertible Note at a redemption price equal to 103% of the outstanding principal amount of the Convertible Note and all unpaid and accrued interests due thereon.

Following a Change of Control, the Noteholder may require the Company to redeem all or part of the Convertible Note at a redemption price equal to the higher of (i) 125% of the principal amount of the Convertible Note to be redeemed together with all interest unpaid and accrued thereon; and (ii) the principal amount of the Convertible Note to be redeemed divided by the Conversion Price as of the date of occurrence of the Change of Control and multiplied by the closing price of the trading day immediately following the earlier of the date of the announcement of the proposed Change of Control or the date of occurrence of the Change of Control.

- Redemption on or after the Maturity Date : 107.5% of the outstanding principal amount of the Convertible Note and all unpaid and accrued interests due thereon shall be repaid by the Company.
- Ranking of the Conversion Shares : The Conversion Shares will rank pari passu in all respects with all other Shares in issue as at the date of issue and allotment.
- Transferability : The Convertible Note shall be freely assigned and transferred provided that no assignment or transfer shall be made to a connected person (within the meaning ascribed thereto in the Listing Rules) of the Company without the prior approval of the Company, and that such parts of the principal amount of the Convertible Note to be assigned or transferred shall not be less than a whole multiple of HK\$1,000,000 at any one time (unless the aggregate outstanding principal amount of the Convertible Note is less than HK\$1,000,000 in which case the whole (but not part only) of that amount may be assigned and transferred).
- Voting : The Noteholder will not be entitled to attend or vote at any meeting of the Company by reason only of it being a Noteholder.
- Listing : No application will be made for the listing of the Convertible Note on the Stock Exchange or any stock or securities exchange.

REASON FOR SUBSCRIPTION AND USE OF NET PROCEEDS

The Group is a processor of frozen nutritional and natural foods that focuses on addressing the nutrition, health and well being needs of consumers in the PRC and international markets including the United States of America and Japan.

With the expansion of food industry in PRC, the Directors believe that it is essential and beneficial for the Company to secure additional funds for the expansion of its business as and when opportunities arise. The net proceeds from the issue of the Convertible Note (after deduction of expenses) are estimated to be approximately HK\$112 million. The Directors at present intend to apply the net proceeds for the vertical integration of the Group's sales and distribution network, approximately RMB50 to 60 million will be used to fund the establishment of approximately 20 retail chain stores and 3 distribution centers in Beijing, Shanghai and Xian before August 2007 and the recruitment of management teams running the stores and distribution centers, approximately RMB30 to 50 million will be used to fund the establishment of approximately 15 retail chain stores and 3 distribution centers in Ningxia, Chengdu and Chongqing before June 2008 and the recruitment of management teams running the stores and distribution centers and the remaining amount will be used as general working capital.

The Subscriber is an investment fund that invests in opportunities in a wide array of countries and industries. Its investors include institutions and high net-worth individuals, and its investment manager is DKR Oasis Management Company L.P, a Delaware limited partnership. The Directors are of the view that the terms of the Convertible Note are fair and reasonable and the issue of the Convertible Note is in the interests of the Company and the Shareholders as a whole.

The Company has not conducted any equity-related fund raising exercise for the past 12 months immediately prior to the date of this announcement.

EFFECT ON SHAREHOLDING STRUCTURE

The existing shareholding structure of the Company and the shareholding structure of the Company upon full conversion of the Convertible Note are as follows:

Shareholders	Existing shareholding structure as at the date of this announcement		Shareholding structure upon full conversion of the Convertible Note at the initial Conversion Price of HK\$0.85 per Share	
	Number of Shares held	% of issued shares held	Number of Shares held	% of issued shares held
Regal Splendid Limited	369,300,000	39.9%	369,300,000	34.8%
Value Partners Limited	64,555,000	7.0%	64,555,000	6.1%
Cheah Cheng Hye	1,400,000	0.2%	1,400,000	0.1%
The SFP Asia Master Fund Ltd	48,945,000	5.3%	48,945,000	4.6%
Subscriber	0	0%	136,470,588	12.9%
Other public Shareholders	440,942,123	47.7%	440,942,123	41.5%
Total	925,142,123	100.00	1,061,612,711	100.00

Note:

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, a Director.
2. Pursuant to the Corporate Substantial Shareholder Notices filed by Value Partners Limited on 24 March 2006, Value Partners Limited was interested in 64,555,000 Shares. As far as the Directors are aware, as at the date of this announcement, 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.

3. Pursuant to the Corporate Substantial Shareholder Notice filed by the SFP Asia Master Fund Ltd on 17 July 2006, the SFP Asia Master Fund Ltd was interested in 48,945,000 Shares. As far as the Directors are aware, the SFP Asia Master Fund Ltd is a company incorporated in the Cayman Islands with limited liability which owned as to 80.2% by the SFP Asia Fund Limited and 19.8% by the SFP Asia Fund L.P. respectively. The SFP Asia Fund Ltd and the SFP Asia Fund L.P. is 100% wholly owned by the SFP Value Realization Co., Ltd.

GENERAL

The Conversion Shares will be issued and allotted pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 22 June 2006. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in the Conversion Shares.

Trading in the Shares on the Stock Exchange was suspended, at the request of the Company, with effect from 9:30 a.m. on 14 August 2006 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 16 August 2006, 9:30 a.m..

As at the date of announcement, the executive directors of the Company are Mr. Yeung Chung Lung, Mr. Yang Le, Mr. Ni Chao Peng and Mr. Yip Tze Wai, Albert and the Independent non-executive directors of the Company are Mr. Tsui Chun Chung, Arthur, Mr. Lu Ze Jian and Mr. Leung Chiu Shing.

Made by the board of Directors, the Directors of which individually and jointly accepts responsibility for the accuracy of this announcement.

DEFINITION

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

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| “2006 Net Profit” | the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items attributable to the Shareholders for the financial year ending 31 December 2006, as reflected in the relevant audited financial statements of the Company |
| “2006 Net Profit Announcement Date” | the date on which the 2006 Net Profit is announced or otherwise published as public notice by the Company |
| “2007 Net Profit” | the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items attributable to the Shareholders for the financial year ending 31 December 2007, as reflected in the relevant audited financial statements of the Company |
| “2007 Net Profit Announcement Date” | the date on which the 2007 Net Profit is announced or otherwise published as public notice by the Company |
| “Board” | Board of Directors |
| “Business Day” | a day other than a Saturday and a day on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. on which licensed banks are open for general banking business in Hong Kong |

“Change in Control”	an event occurs when (i) any person or persons (other than the Existing Major Shareholder) acting together acquires directly or indirectly 50% or more of the voting rights of the issued share capital of the Company; or (ii) the Company consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or entity (other than the Existing Major Shareholder) which will result in that other person or entity acquire 50% or more of the voting rights of the issued Share capital of the Company
“Company”	First Natural Foods Holdings Limited, a Company incorporated in Bermuda with limited liability, the Shares of which are currently listed on the Stock Exchange
“Conversion Price”	the conversion price at which each Conversion Share will be issue upon a conversion of all or any part of the Convertible Note, being HK\$0.85 (subject to adjustment)
“Conversion Rights”	the rights attaching to the Convertible Note to convert the same or a part thereof into Conversion Shares
“Conversion Shares”	the Shares to be issued and allotted by the Company upon exercise by the holder(s) of the Convertible Note of the Conversion Rights attached thereof
“Completion”	completion of the Subscription Agreement
“Convertible Note”	the redeemable convertible note in the principal amount of HK\$116,000,000 to be issued to the Subscriber on the date of Completion pursuant to the Subscription Agreement
“Director(s)”	the director(s) of the Company
“EBITDA”	earnings before interest, taxes, depreciation and amortization
“Existing Major Shareholder”	means (i) Mr. Yeung Chung Lung and/or any of his immediate family members, and/or any of their respective associates (as defined in the Listing Rules); and/or (ii) any trusts established for the benefit of the persons and entities described in sub-paragraph (i) herein and/or any of their immediate family members; and/or (iii) companies controlled by the persons and entities described in sub-paragraph (i) herein, their immediate family members or the trust described in sub-paragraph (ii) herein; and (iv) the subsidiaries (direct or indirect) of the companies described in sub-paragraph (iii) herein
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administration Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2006 (or such other date as may be agreed between the Company and the Subscriber)
“Maturity Date”	the fifth anniversary of the date of issue of the Convertible Note
“Net Debt”	total liabilities of the Group less total current assets

“Noteholder”	holder of the Convertible Note
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement only, Hong Kong the Macao Special Administrative Region and Taiwan)
“Share(s)”	ordinary share(s) of HK\$0.05 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	DKR SoundShore Oasis Holding Fund Limited, a company incorporated in Bermuda with limited liability and is principally engaged in investment holding
“Subscription Agreement”	the conditional subscription agreement dated 11 August 2006 entered into between the Company and the Subscriber in relation to the issue and subscription of the Convertible Note
“%”	per cent.

By Order of the Board
Yeung Chung Lung
Chairman

Hong Kong, 15 August 2006

* *for identification purpose only*

*Please also refer to the published version of this announcement in **The Standard**.*