

# CHAIRMAN'S STATEMENT



**Yeung Chung Lung**  
Chairman

Hong Kong, 23 April, 2007



Dear Shareholders,

On behalf of the Board of Directors (the "Board") 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 2006.

## Summary of Results

For the year ended 31 December 2006, the Group achieved satisfactory results in terms of turnover and profits. During the year, turnover of the Group was approximately RMB545,739,000 (2005: approximately RMB432,652,000), representing an increase of approximately 26% as compared to 2005. The Group's profit attributable to shareholders for the year was approximately RMB138,006,000 (2005: approximately RMB113,461,000), representing an increase of approximately 22% year-on-year. The basic earnings per share was approximately RMB0.148 (2005: approximately RMB0.128).

## Dividends

The Board resolved to recommend a final dividend of HK\$0.045 per share (approximately equivalent to RMB0.044) (2005: HK\$0.015 per share or approximately equivalent to RMB0.0156) for the year ended 31 December 2006. The dividend payout ratio for 2006 was approximately 32%.

# ' *Make it happen* '

## **Business Review**

During the year, the Group achieved remarkable accomplishments, including the fundamental facilities enhancements in Fuqing plant, the commencement in production of high-temperature products, the customers' recognition of the Group's sea-eel products and the investment in a wholly-subsiary for Zhejiang fishery production. These worthwhile efforts had not only broadened the Group's revenue stream, but also received confidence and unwavering support from customers which resulted in the growing sales orders during the year.

The Group highly appreciated the cooperation with the Food Study Centre of Fujian Agriculture and Forestry University and Interface Protein Technology Inc. USA during the year, for the enhancement of the Group's quality control and latest market knowledge. The Group will continue to maintain the long-term strategic relationships with them.

Being a significant investment, the Group scheduled to set up its first "Longyu" retail shop in the PRC in 2007. The pre-opening arrangements for "Longyu" retail shop were in progress. The Group leased a shop in a prime location of Pudong, Shanghai while interior decoration, design of shop logo and product packages were completed.

Upon the establishment of Ningbo Dingwei Food Development Limited, it entered into contracts to build a fishery processing plant in Zhejiang. Its total investment will be approximately RMB170,000,000. In addition, the construction works of new integrated processing workshop in Fuqing was completed in February 2007 and the renovation works are in progress. The fishery plant is expected to commence its production by the end of 2007. Such incremental production capacity will be added in the second half of 2007. For the expansion of high-temperature products, the Group purchased two new advanced production lines to increase production capacity.

Recently, the Group was informed by several renowned international institutional investors their increased shareholdings in our Group, this conveys a positive message to the market that the investors recognize our business model and future prospect.

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# ' *Make it happen* '

### Prospects

Despite the outstanding performance in the past, the Group continues to speed up the business development in 2007. In the first quarter of 2007, the Group successfully secured a number of new customers such as Orbit Brands LLC in the US, Toho Co., Ltd., Mandai Co., Ltd., and Uohide Co., Ltd. in Japan. Meanwhile, the Group was accredited the recognition of Kosher Certification. This enables the Group's tuna products tapping into North American market and further expanding into other overseas markets. Recently, the Group has reached a lease agreement for organic rice crop farm. The stable supplies of the quality rice crops add more value in respect to the expansion of production Group's convenient rice meal products.

The first "Longyu" retail shop will be officially opened by May 2007. Primarily the superb quality of products will be offered in the shop. We believe the Group's quality products and its brandname will be well-received in the PRC. With the successive growth of the PRC economy and the upgrading living standard of the general public represent huge room for quality, safe, convenient and branded products. The Group is well-equipped to capture the business opportunities ahead. The completion of new production plants add the processing capacity to meet the robust sales growth in the coming years.

Despite the significance of the PRC market, as a long-term development strategy, the Group will maintain a good balance on sales and marketing efforts for both overseas and domestic markets.

In 2007, the Group endeavors to become a worldclass frozen natural food processor. It is mainly attributable to the Group's business-savvy management, enlarged production scale and capacity, strong R&D for new products and production technologies, diversified product mix, stringent quality and cost control, extensive business network in the PRC, optimal allocation of resources in the PRC market by the opening of "Longyu" retail shops and its developed markets in the US and Japan.

### Acknowledgement

On behalf of the Board, I wish to thank the Board for their valuable advice and guidance in the past year. I would like to extend my heartfelt thanks to all our customers, suppliers, business partners and shareholders for their trust in and support for the Group, and to all the staff of the Group for their dedication and loyalty.