FIRST NATURAL FOODS HOLDINGS LIMITED
第一天然食品有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 01076)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board (the "Board") of directors (the "Directors") of First Natural Foods Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012, which have been agreed by the auditor of the Company, together with comparative figures for the corresponding year of 2011 as follows:

* *for identification purposes only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	**2012**	2011
		HK$'000	*HK$'000*
Turnover	*3 & 5*	**651,562**	881,291
Cost of sales		**(626,058)**	(856,634)
Gross profit		**25,504**	24,657
Other income	*4*	**13,237**	9,662
Selling and distribution expenses		**(6,293)**	(2,106)
Administrative expenses		**(13,036)**	(13,619)
Profit from operations		**19,412**	18,594
Restructuring costs	*6*	**(8,581)**	(3,755)
Gain on debts discharged under the scheme of arrangement	*7*	**381,258**	-
Loss on group reorganisation	*7*	**(260)**	-
Finance costs	*8*	**(6,629)**	(8,872)
Profit before tax	*9*	**385,200**	5,967
Income tax expenses	*10*	**(2,342)**	(3,225)
Profit and total comprehensive income for the year attributable to owners of the Company		**382,858**	2,742
			(Restated)
Earnings per share attributable to owners of the Company			
Basic and diluted (HK$ per share)	*12*	**2.73**	0.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**237**	256
Prepayments, deposits and other receivables		**26,375**	29,375
Goodwill		**6,098**	6,098
Deferred tax assets		**-**	253
		32,710	35,982
Current assets			
Inventories		**3,444**	4,187
Trade receivables	*13*	**72,318**	47,787
Prepayments, deposits and other receivables		**8,134**	7,905
Bank and cash balances		**66,952**	36,186
Current tax assets		**928**	-
		151,776	96,065
Current liabilities			
Trade and bills payables	*14*	**15,867**	16,811
Accruals, other payables and deposits received		**8,015**	319,664
Bank and other borrowings		**-**	215,597
Financial guarantee liabilities		**-**	15,325
Current tax liabilities		**106**	1,879
		23,988	569,276
Net current assets / (liabilities)		**127,788**	(473,211)
Total assets less current liabilities		**160,498**	(437,229)
Non-current liabilities			
Deferred tax liabilities		**10**	-
NET ASSETS / (LIABILITIES)		**160,488**	(437,229)
Capital and reserves			
Share capital	*15*	**4,002**	59,296
Reserves		**156,486**	(496,525)
TOTAL EQUITY / (DEFICIENCY OF TOTAL EQUITY)		**160,488**	(437,229)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. Basis of preparation

Completion of the restructuring of the Group and resumption of trading in the shares of the Company

Trading in the shares of the Company (the "Shares") was suspended on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at the request of the Company on 15 December 2008.

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 "Hong Kong 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 Hong Kong Court. The Petition was filed with the Hong Kong Court on 7 January 2009 to effect the appointment. The Provsional Liquidators took control and possession of the assets of the Company.

Since then, the Provisional Liquidators had commenced restructuring the Company. On 30 July 2009 and 21 September 2010, an exclusivity agreement and a supplemental exclusivity agreement respectively were entered into among the investor (the "Investor"), namely Group Will Holdings Limited, Mr. Huang Kunyan, the Company and the Provisional Liquidators to grant the Investor an exclusive right to prepare and submit a resumption proposal to the Stock Exchange with the view to resume trading of the Company's shares.

Since the second half of 2009, with the working capital facility (the "Working Capital Facility") provided by the Investor, the Group had restored its trading business operation by establishing the special purpose vehicles to carry out the food trading and processing business. In October 2010, the Group completed the acquisition of the entire issued share capital of Orient Legend International Limited ("Orient Legend") for an aggregate cash consideration of HK$10,000,000, pursuant to which the trading of food products were strengthened further. In the same month, the Group entered into an operating lease agreement (the "Sincere Gold Agreement") with an independent third party. According to the terms of the Sincere Gold Agreement, the independent third party who has a processing plant in Jiangmen, the PRC, will provide the processing of food products service for the Group. Leveraging on the large customers base and trading volume of Orient Legend, the Sincere Gold Agreement further strengthens the processing of food products business of the Group.

On 5 January 2012, the Company, the Provisional Liquidators, the Investor and Mr. Huang Kunyan as the guarantor entered into a formal restructuring agreement to implement the proposed restructuring of the Company which included, inter alia, (i) capital restructuring; (ii) open offer; (iii) subscription of new shares; (iv) issue of creditors shares; (v) implementation of the scheme of arrangement; and (vi) group reorganisation. On 4 September 2012, the proposed restructuring was completed. With effect from 4 September 2012, the Provisional Liquidators were discharged and the petition for winding-up of the Company was dismissed by the Hong Kong Court. Upon the grant from the Stock Exchange, trading in the shares of the Company was resumed on 6 September 2012.

Change in presentation currency

The Company and the Group changed their presentation currency from Renminbi to Hong Kong dollars during year because the Directors consider that choosing Hong Kong dollars as the presentation currency best suits the needs of the shareholders and investors.

2. 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 new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA") which are effective for its accounting year beginning on 1 January 2012:

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
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets
HKAS 12 Amendments	Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

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 polices, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 1 Amendments	Government Loans [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities [2]
HKFRS 9 and HKFRS 7 Amendments	Amendments to HKFRS 9 Financial Instruments and HKFRS 7 Financial Instruments: Disclosures - Mandatory Effective Date of HKFRS 9 and Transition Disclosures [4]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements and HKFRS 12 Disclosure of Interests in other Entities: Transition Guidance [2]
HKFRS 10, HKFRS 12 and HKAS 27 Amendments	Amendments to HKFRS 10 Consolidated Financial Statements, HKFRS 12 Disclosure of Interests in Other Entities and HKAS 27 Separate Financial Statements: Investment Entities [3]
HKFRS 9	Financial Instruments [4]
HKFRS 10	Consolidated Financial Statements [2]
HKFRS 11	Joint Arrangements [2]
HKFRS 12	Disclosure of Interests in Other Entities [2]
HKFRS 13	Fair Value Measurement [2]
HKAS 19 (2011)	Employee Benefits [2]
HKAS 27 (2011)	Separate Financial Statements [2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [2]
HKAS 1 Amendments	Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income [1]
HKAS 32 Amendments	Presentation - Offsetting Financial Assets and Financial Liabilities [3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine [2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

In the meantime, there are Annual Improvement to HKFRSs 2009-2011 Cycle on HKFRS 1 and HKASs 1, 16, 32 and 34 for annual periods beginning on or after 1 January 2013.

The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

3. Turnover

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

	2012	2011
	HK$'000	*HK$'000*
Sales of goods	**651,562**	881,291

4. Other income

	2012	2011
	HK$'000	*HK$'000*
Food processing income	**6,810**	6,633
Commission income	**840**	1,603
Storage fee income	**5,486**	1,361
Interest income	**84**	39
Sundry income	**17**	26
	13,237	9,662

5. 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.

The accounting policies of the operating segment are the same as those used in the preparation of the consolidated financial statements. Segment profits or losses do not include finance costs arising from bank and other borrowings, restructuring costs and unallocated corporate income and expenses. Segment liabilities do not include bank and other borrowings, financial guarantee liabilities, deferred tax liabilities and amounts due to related parties. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

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

	Frozen and functional food products	
	2012	2011
	HK$'000	*HK$'000*
Years ended 31 December		
Revenue from external customers	**651,562**	881,291
Segment profit	**20,892**	20,006
Interest income	**58**	9
Finance costs arising from bank overdraft	**-**	5
Depreciation	**87**	77
Income tax expenses	**2,342**	3,225
Additions to segment non-current assets	**78**	296
As at 31 December		
Segment assets	**178,388**	117,082
Segment liabilities	**23,538**	99,398

Reconciliations of reportable segment profit or losses, assets and liabilities:

	Year ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
Profit or losses		
Profit of reportable segment	**20,892**	20,006
Unallocated amounts:		
Unallocated corporate income and expenses	**(1,480)**	(1,417)
Gain on debts discharged under the scheme of arrangement	**381,258**	-
Loss on group reorganisation	**(260)**	-
Restructuring costs	**(8,581)**	(3,755)
Finance costs arising from bank and other borrowings excluding bank overdraft	**(6,629)**	(8,867)
Consolidated profit before tax	**385,200**	5,967

	As at 31 December	
	2012	2011
	HK$'000	*HK$'000*
Assets		
Total assets of reportable segment	**178,388**	117,082
Unallocated amounts:		
Deferred tax assets	**-**	264
Goodwill	**6,098**	6,098
Unallocated corporate assets	**-**	8,603
Consolidated total assets	**184,486**	132,047
Liabilities		
Total liabilities of reportable segment	**23,538**	99,398
Unallocated amounts:		
Deferred tax liabilities	**10**	11
Bank borrowings	**-**	208,597
Financial guarantee liabilities	**-**	15,325
Unallocated corporate liabilities	**450**	245,945
Consolidated total liabilities	**23,998**	569,276

Geographical information

	Turnover Year ended 31 December		Non-current assets As at 31 December	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Canada	**37,321**	38,316	**-**	-
Mainland China	**542,058**	775,516	**-**	-
Hong Kong	**72,183**	54,856	**32,710**	35,729
Others	**-**	12,603	**-**	-
Consolidated total	**651,562**	881,291	**32,710**	35,729

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

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012
	HK$'000
Customer A	**120,517**
Customer B	**101,779**
Customer C	**70,809**

	2011
	HK$'000
Customer A	283,886
Customer B	146,368
Customer C	105,620

6. Restructuring costs

Restructuring costs of approximately HK$8,581,000 (2011: approximately HK$3,755,000) mainly included the legal fees, fee to the financial advisor and the Provisional Liquidators and other professional fees for implementing the proposed restructuring of the Company. Such expenses were financed by the Investor and non-recurring in nature.

7. The scheme of arrangement and group reorganisation

Gain on debts discharged under the scheme of arrangement

On 26 April 2012, the majority of the scheme creditors approved a scheme of arrangement and accordingly all indebtedness owed by the Company to the scheme creditors on the date for determination of entitlement of the scheme creditors were released, discharged and fully settled on 4 September 2012.

The scheme of arrangement was sanctioned by the Hong Kong Court and the Supreme Court of Bermuda on 16 May 2012 and 18 May 2012 respectively. The total indebtedness admitted by the scheme administrator under the scheme of arrangement was discharged in full and settled by way of a combination of the cash payment of HK$62,000,000 and issuance of 14,823,936 creditors shares credited as fully paid. As a result, a gain on debts discharged under the scheme of arrangement of approximately HK$381,258,000 (2011: Nil) was recognised during the year ended 31 December 2012, being calculated as follows:

	HK$'000
Debts discharged:	
Bank borrowings	208,597
Financial guarantee liabilities	15,325
Accruals, other payables and deposit received	227,670
	451,592
Satisfied by:	
Cash consideration	(62,000)
Issue of creditors shares (at fair value)	(8,334)
	(70,334)
Gain on debts discharged under the scheme of arrangement	381,258

Loss on group reorganisation

On 4 September 2012, the Group completed the restructuring agreement where Smart Dragon International Trading Limited, First China Technology Limited and First China Technology (Hong Kong) Limited, which are the former immediate subsidiaries of the Company, (the "Former Immediate Subsidiaries"), and Fuqing Longyu Food Development Company Limited, Jiajing Commercial (Shanghai) Company Limited and Ningbo Dingwei Food Development Company Limited, which are the subsidiaries of the Smart Dragon International Trading Limited or First China Technology Limited and had been deconsolidated from the Group since 1 July 2008 (details of the deconsolidation were disclosed in note 2 and 10 to the consolidated financial statements of the Company's 2008 annual report dated 22 January 2010), were transferred out of the Group to the nominee of the administrators of the aforesaid scheme of arrangement.

	HK$'000
Net Assets of the Former Immediate Subsidiaries at the date of disposal of were as follows:	
Deferred tax assets	264
Bank and cash balances	62
Accruals, other payables and deposits received	(66)
	260
Loss on group reorganisation	(260)
Total consideration satisfied by cash	-
Net cash outflow arising on group reorganisation:	
Cash and cash equivalents of the subsidiaries disposal of	(62)

As the result of the group reorganisation, the merger reserve of approximately HK$38,900,000 included in the consolidated statement of changes in equity was transferred to the accumulated losses of the Group during the year.

8. Finance costs

	2012	2011
	HK$'000	*HK$'000*
Interest expenses on:		
Bank borrowings wholly repayable within 1 year or on demand	**6,183**	8,657
Other borrowing wholly repayable within 1 year	**446**	210
Bank overdraft interest	**-**	5
	6,629	8,872

9. Profit before tax

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

	2012	2011
	HK$'000	*HK$'000*
Cost of inventories sold	**626,058**	856,634
Depreciation	**92**	86

10. Income tax expenses

	2012	2011
	HK$'000	*HK$'000*
Current tax - Hong Kong Profits Tax		
Provision for the year	**2,372**	3,211
Under-provision in prior years	**-**	3
Over-provision in prior years	**(29)**	-
	2,343	3,214
Deferred tax	**(1)**	11
	2,342	3,225

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

11. Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

12. Earnings per share attributable to owners of the Company

Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$382,858,000 (2011: approximately HK$2,742,000) and the weighted average number of approximately 140,139,000 ordinary shares (2011: approximately 14,824,000 ordinary shares) in issue during the year which has been adjusted resulting from the share consolidation, the subscription of new shares and the open offer.

Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2012 and 2011 is the same as the basic earnings per share as the Company did not have any dilutive potential ordinary shares during the years.

13. 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 management.

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:

	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**19,216**	5,594
More than 1 month but within 3 months	**23,619**	27,320
More than 3 months but within 6 months	**12,522**	12,057
More than 6 months but within 1 year	**8,594**	2,640
More than 1 year	**8,367**	176
	72,318	47,787

14. Trade and bills payables

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

	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**4,694**	5,062
More than 1 month but within 3 months	**8,702**	10,905
More than 3 months but within 6 months	**2,129**	8
More than 6 months but within 1 year	**-**	813
More than 1 year	**342**	23
	15,867	16,811

15. Share capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

	2012	2011
	HK$'000	*HK$'000*
Authorised:		
800,000,000 ordinary shares of HK$0.01 each (2011: 2,000,000,000 ordinary shares of HK$0.05 each) (Note (i))	**8,000**	100,000
Issued and fully paid:		
400,246,274 ordinary shares of HK$0.01 each (2011: 1,185,914,889 ordinary shares of HK$0.05 each)	**4,002**	59,296

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Movement of the number of shares issued and the share capital during the current year is as follows:

	Number of shares issued	Share capital
	'000	*HK$'000*
At 1 January 2011, 31 December 2011 and 1 January 2012	1,185,915	59,296
Capital restructuring (Note (i))	(1,171,091)	(59,148)
	14,824	148
Share subscription (Note (ii))	266,831	2,668
Open offer (Note (iii))	103,767	1,038
Issue of creditors shares (Note (iv))	14,824	148
At 31 December 2012	400,246	4,002

Notes:

(i) The capital restructuring of the Company became effective on 7 August 2012 which comprised the following:

Capital reduction

The capital reduction involved a reduction of the par value of each share from HK$0.05 each to HK$0.000125 each which gave rise to a credit of approximately HK$59,148,000 on the basis of 1,185,914,889 shares in issue. Such credit was permitted by the Companies Act 1981 of Bermuda to set off part of the accumulated losses of the Company.

Capital cancellation

Immediately following the capital reduction, the remaining authorised but unissued share capital of the Company of 814,085,111 unissued shares of par value of HK$0.05 each amounting to an aggregate of approximately HK$40,704,000 was cancelled in its entirety resulting in the authorised and issued share capital of the Company being reduced to approximately HK$148,000, divided into 1,185,914,889 shares of par value of HK$0.000125 each.

Share consolidation

The share consolidation was implemented to consolidate every 80 issued shares of par value of HK$0.000125 each into one share of par value of HK$0.01 each. As a result, 1,185,914,889 issued shares of the Company were consolidated into 14,823,936 shares of HK$0.01 each.

Share premium cancellation

The entire amount of approximately HK$299,181,000 standing to the credit of the share premium account of the Company as at 31 December 2011 was cancelled and applied to set off part of the accumulated losses of the Company as at 31 December 2011 permitted by the Companies Act 1981 of Bermuda.

Increase in authorised share capital

The authorised share capital of the Company was increased from HK$148,000 to approximately HK$8,000,000 by the creation of approximately 785,200,000 new shares of HK$0.01 each.

(ii) Share subscription

Completion of the share subscription took place on 4 September 2012 pursuant to which 266,830,850 subscription shares were issued to Group Will Holdings Limited (now the Controlling Shareholder of the Company) at the subscription price of HK$0.5622 per subscription share with the par value of HK$0.01 each. Accordingly, the Company's issued share capital was increased by approximately HK$2,668,000 and its share premium account was increased by approximately HK$147,344,000. The transaction costs related to the share subscription was approximately HK$75,000.

(iii) Open offer

Completion of the open offer took place with 103,767,552 offer shares issued on 4 September 2012 under the open offer on the basis of seven offer shares for every one share held by the qualifying shareholders after completion of the capital restructuring at the subscription price of HK$0.5622 per offer share with the par value of HK$0.01 each. Accordingly, the Company's issued share capital was increased by approximately HK$1,038,000 and its share premium account was increased by approximately HK$57,300,000. The transaction costs related to the open offer was approximately HK$1,750,000. The offer shares were issued on 4 September 2012.

(iv) Issue of creditors shares

The scheme of arrangement with the Company's creditors became effective on 4 September 2012 upon the sanction by the Hong Kong Court and the Supreme Court of Bermuda held on 16 May 2012 and 18 May 2012 respectively, pursuant to which approximately 14,824,000 creditors shares were issued to the nominee of scheme administrators of the aforesaid scheme of arrangement at the deemed issue price of HK$0.5622 per creditors share with the par value of HK$0.01 each and credited as fully paid. Accordingly, the Company's share capital was increased by approximately HK$148,000 and its share premium account was increased by approximately HK$8,186,000.

16. Contingent liabilities

As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: Nil)

17. Pledge of assets

As at 31 December 2012, the Group did not have any pledge of assets. As at 31 December 2011, all the assets of Supreme Wit Limited, a direct wholly-owned subsidiary of the Company, were pledged to the Investor by way of floating charge to secure the Working Capital Facility and the additional working capital facility granted by the Investor to the Group. The floating charge was released on 4 September 2012.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The independent auditor has included the following qualification paragraphs in the independent auditor's report to draw the shareholders' attention:

"Basis for qualified opinion

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

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2011 (the "2011 Financial Statements"), which forms 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 30 March 2012. Accordingly, we were then unable to form an opinion as to whether the 2011 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2011 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 year ended 31 December 2011 and the period from 1 January 2012 to 3 September 2012, the date immediately before the group reorganisation being completed.

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 2011 and for the period from 1 January 2012 to 3 September 2012 and the Group's financial positions as at 31 December 2011 and 3 September 2012.

3. ***Gain on debts discharged under the scheme of arrangement***

As explained in note 11 to the consolidated financial statements, upon the scheme of arrangement of the Company becoming effective on 4 September 2012, the Company recognised a gain on debts discharged under the scheme of arrangement of approximately HK$381,258,000 for the year ended 31 December 2012.

No sufficient evidence has been provided to satisfy ourselves as to certain liabilities of the Company being discharged under the scheme of arrangement. As a result, we are unable to satisfy ourselves as to the gain on debts discharged under the scheme of arrangement of approximately HK$381,258,000 included in the consolidated profit or loss.

4. ***Loss on group reorganisation***

As explained in note 11 to the consolidated financial statements, upon completion of the group reorganisation on 4 September 2012, the Group recognised a loss on group reorganisation of approximately HK$260,000 for the year ended 31 December 2012.

No sufficient evidence has been provided to satisfy ourselves as to the net assets amount of the subsidiaries transferred out of the Group due to the group reorganisation. As a result, we are unable to satisfy ourselves as to the loss on group reorganisation of approximately HK$260,000 included in the consolidated profit or loss.

Any adjustments to the matters as described from points 1 to 4 above might have a consequential effect on the Group's results for the two years ended 31 December 2011 and 2012, the Group's cash flows for the two years ended 31 December 2011 and 2012 and the financial position of the Group as at 31 December 2011, and the related disclosures thereof in the consolidated financial statements.

Qualified opinion

In our opinion, except for the possible effects of the matters as described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the results and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESTRUCTURING AND RESUMPTION OF TRADING OF SHARES

During the year, the Company completed a series of corporate exercises including, but not limited to, capital restructuring, open offer of new shares, subscription of new shares as well as group reorganisation. In addition, the scheme of arrangement with the Company's creditors was effective on 4 September 2012 and the provisional liquidators were discharged on the same date. Accordingly, the resumption conditions of the Company was fulfilled on 4 September 2012 and the trading of shares of the Company was resumed on 6 September 2012.

BUSINESS REVIEW

The core business which is also the only operating segment of the Group is processing and trading of frozen and functional food products which are sold mainly to Canada, PRC, Hong Kong and other South-East Asian countries.

During the year, the Group continued to reap the benefits from the lease of food processing facilities of the food processing plant in Jiangmen PRC under the Sincere Gold Agreement entered into with an independent third party in previous year. The value added services of the Group continued to be strengthened through the Jiangmen processing plant by taking advantages of the established trading volume already achieved by the Group. With the food processing facilities leased under the Sincere Gold Agreement, certain products of customer orders received by the Group have been processed by the Jiangmen processing plant. In addition, the Group continued to utilise the food processing facilities to provide food processing service to customers and thus derived food processing income during the year which formed part of the important income stream of the Group.

Orient Legend International Limited ("Orient Legend"), an indirect wholly-owned subsidiary of the Company acquired in 2010 and the trading business arm of the Group, delivered a set of satisfactory results for 2012. Despite relatively low profit margin for the trading business of Orient Legend, the Company believes that the trading business of Orient Legend enabled the Group to extend its geographical coverage and strengthen the scale of operations of the Group.

The management of the Group recognises the market potential of frozen food product in the PRC. Therefore, the Group participated in the food expo, namely 16th FHC China 2012, in Shanghai in November 2012 with a view to increase the Group's coverage by expanding the customer base and supplier network. The feedback from the visitors and other participants in the food expo, mainly food traders, on the products of the Group was positive and encouraging. We believe that the products of the Group are much more known and recognised by the market as a result of the food expo and therefore it is expected that food distribution in the PRC, currently mainly carried out in Beijing, will be further enhanced.

FINANCIAL REVIEW

Financial Results

For the year ended 31 December 2012, the Group achieved a turnover of approximately HK$651,562,000, decreased by approximately HK$229,729,000 or 26.1% with gross profit increased by approximately HK$847,000 or 3.4%. The decrease in turnover was mainly due to the decrease in sales to the PRC as there was a general decrease in demand, especially, frozen meat and poultry, in the PRC. During the year, the Group continued to provide food processing services to customer by using the processing facilities leased under the Sincere Gold Agreement and derived food processing income of approximately HK$6,810,000 in 2012. As a result, even there was a drop in turnover, the Group still managed to achieve a profit from operations of approximately HK$19,412,000 for the year ended 31 December 2012, increased by approximately HK$818,000 or 4.4% as compared with last year.

For the year ended 31 December 2012, there was a one-off exceptional gain on debts discharged under the scheme of arrangement amounting to approximately HK$381,258,000 with the restructuring cost incurred for the group restructuring amounting to approximately HK$8,581,000. The Group’s profit attributable to owners of the Company increased from approximately HK$2,742,000 in 2011 to approximately HK$382,858,000 in 2012 whereas basic earnings per share for 2012 was HK$2.73 compared to HK$0.18 (restated) in 2011.

Notwithstanding that the independent auditor has issued a qualified opinion on the Company’s consolidated financial statements for the year ended 31 December 2012, the Board would like to state that the qualified opinion is due to the gain on liabilities discharged and the loss arising in the Group's reorganisation which was completed on 4 September 2012, and the historical figures of the subsidiaries deconsolidated and excluded from the existing Group in the Group's reorganisation completed on 4 September 2012. The Board confirmed that no qualified opinion is expressed by the independent auditor on the financial and operations of the existing companies of the Group.

Significant Investment and Acquisition

Due to the group reorganisation, the Company transferred the entire interests/share capitals of the subsidiaries, namely, First China Technology Limited, First China Technology (Hong Kong) Limited, Smart Dragon International Trading Limited, Fuqing Longyu Food Development Company Limited, Jiajing Commercial (Shanghai) Company Limited and Ningbo Dingwei Food Development Company Limited, to the scheme administrator of the scheme of arrangement at a nominal value of HK$1.00. It should be noted that there was no material financial effect from the disposal of the above subsidiaries during this year as either the results, assets and liabilities of these subsidiaries had already been deconsolidated from the Group in previous year or a substantial portion of the assets held by the subsidiaries had already been impaired in previous year.

Apart from the above, there were no material acquisition and disposal of subsidiaries, associated companies and jointly controlled entities in 2012.

Liquidity and Financial Resources

Upon the completion of the group restructuring and debt restructuring exercises, the Group's financial position had been significantly improved. As at 31 December 2012, total assets of the Group was approximately HK$184,486,000 (2011: approximately HK$132,047,000) comprising non-current assets of approximately HK$32,710,000 (2011: approximately HK$35,982,000) and current assets of approximately HK$151,776,000 (2011: approximately HK$96,065,000). In addition, the Group maintained a strong cash balance of approximately HK$66,952,000 as at 31 December 2012 (2011: approximately HK$36,186,000). At 31 December 2012, the liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 6.33 times (2011: 0.17 time). At 31 December 2012, the Group's gearing ratio on the basis of the Group's interest bearing liabilities divided by total equity was nil as the Group did not have any interest bearing bank and other borrowings due to the discharge of debt under the scheme of arrangement. The gearing ratio as at 31 December 2011 is not applicable as the Group had a net deficiency in total equity as at 31 December 2011.

Capital Structure

As part of the group restructuring, the Company completed a series of capital restructuring including, capital reduction, capital cancellation, share consolidation, share premium cancellation and increase in authorised share capital during the year 2012. As a result, the authorised share capital of the Company after the capital restructuring was 800,000,000 shares of HK$0.01 each with total par value of HK$8,000,000.

Open offer, subscription of shares by the Investor and issue of creditor shares

As part of the Group's restructuring and after the capital restructuring, the Company completed an open offer of issuing 103,767,552 shares of HK$0.5622 each share and raised a gross proceeds of fund of approximately HK$58,300,000. In addition, the Investor also subscribed for 266,830,850 shares of the Company at HK$0.5622 per shares with a total value of approximately HK$150,000,000. Moreover, after the completion of the open offer and the subscription of shares by the investor, the Company issued 14,823,936 creditor shares at the deemed issue price of HK$0.5622 per creditor share of total value of approximately HK$8,334,000 credited as fully paid to the Company's creditors pursuant to the scheme of arrangement.

Risk of Foreign Exchange Fluctuation

The business transactions of the Group are mainly carried in Hong Kong dollars and US dollars meaning that it will be subject to reasonable exchange rate exposure. However, the Group will closely monitor this risk exposure and would take prudent measures as appropriate.

Contingent Liabilities

As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: Nil).

Pledge of Assets

As at 31 December 2012, the Group did not have any pledge of assets. As at 31 December 2011, all the assets of Supreme Wit Limited, a direct wholly-owned subsidiary of the Company, were pledged to the Investor by way of floating charge to secure the Working Capital Facility and the additional working capital facility granted by the Investor to the Group. The floating charge was released on 4 September 2012.

EMPLOYEES AND REMUNERATION POLICIES

Including the Directors, the total number of staff of the Group as at 31 December 2012 was 24 (2011: 18). Total staff costs, including Directors' emoluments, amounted to approximately HK$2,897,000 (2011: approximately HK$3,823,000).

Remuneration packages are reviewed annually and determined by reference to market scale and individual performance. In addition to salary payments, the Group also provides other employment benefits such as provident fund.

BUSINESS OUTLOOK

Upon the completion of the group restructuring and the debt restructuring of the Company as well as the open offer of shares and share subscription by the Investor, the financial position of the Group is significantly improved. However, the world economy continues to remain uncertain and it is expected that there are risks and challenges ahead. The Group remains cautiously optimistic on its core business of processing and trading of foods products especially by utilising the benefits from the capacities of the food processing facilities leased under the Sincere Gold Agreement. With a view to further expand the market coverage, the Group will continue to explore new customers and to diversify the product range and distribution channels. It is expected that the uncertain worldwide economies, keen competition from other food traders and the tightening of standards on foods safety especially in the PRC will inevitably have negative impact on the selling price and profit margin. However, the Group will continue to prudently implement the above strategies for the benefit of the Group and the shareholders of the Company.

EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES

Save for the open offer, share subscription and issue of shares as set out in the section headed "*Open offer, subscription of shares by the Investor and issue of creditor shares*" above, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year.

CORPORATE GOVERNANCE

On 6 January 2009, the Provisional Liquidators were appointed by the Hong Kong 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 Corporate Governance Code and Corporate Governance Report ("CG Code") (previously known as Code on Corporate Governance Practices) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange throughout the period from 1 January 2012 to 3 September 2012.

On 4 September 2012, the Provisional Liquidators were discharged. The Company has applied and complied with the applicable code provisions set out in the CG Code as set out in Appendix 14 to the Listing Rules throughout the period from 4 September 2012 to 31 December 2012, except for certain deviations which are summarized below:

- Code Provision A.1.8

Code provision A.1.8 of the CG Code requires an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular and timely communications among the directors and the management of the Group, the Board believes that all potential claims and legal actions against the directors can be handled effectively, and the possibility of actual litigation against the directors is very low. The Company is reviewing various insurance cover proposals and will make such an arrangement as appropriate.

- Code Provision A.4.1

Code provision A.4.1 of the CG Code requires the non-executive directors should be appointed for a specific term, subject to re-election. The Company has one non-executive director and three independent non-executive directors. All of them are not appointed for a specific term, but subject to re-election in accordance with the Bye-laws of the Company.

- Code Provision A.6.7

Code provision A.6.7 of the New CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. A non-executive director was unable to attend the annual general meeting and special general meeting of the Company held on 28 December 2012 due to other important engagement.

AUDIT COMMITTEE REVIEW

The Company has an audit committee which was established in accordance with the requirements of the CG Code, for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors of the Company. The Group’s consolidated financial statements for the year ended 31 December 2012 have been reviewed and approved by the audit committee.

BROAD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Huang Kunyan, Mr. Shum Chin Tong Peter and Mr. Yau Dennis Wai Tak as executive directors; Mr. Lee Wa Lun Warren as non-executive director; and Mr. Wong Chi Keung, Mr. Leung King Yue Alex and Mr. Tang Chi Chung Matthew as independent non-executive directors.

On behalf of the Board of
First Natural Foods Holdings Limited
Huang Kunyan
Chairman

Hong Kong, 28 March 2013