# 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 2013

The board (the "**Board**") of directors (the "**Directors**") of First Natural Foods Holdings Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2013, together with comparative figures for the corresponding year of 2012 as follows:

* *for identification purposes only*

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2013*

| | *Notes* | **2013** **HK$'000** | 2012 *HK$'000* |
|---|---|---|---|
| **Turnover** | *3&5* | **544,824** | 651,562 |
| Cost of sales | | **(535,127)** | (626,058) |
| Gross profit | | **9,697** | 25,504 |
| Other income | *4* | **3,996** | 13,237 |
| Selling and distribution expenses | | **(8,205)** | (6,293) |
| Administrative expenses | | **(20,439)** | (13,036) |
| **(Loss)/profit from operations** | | **(14,951)** | 19,412 |
| Restructuring costs | *6* | **–** | (8,581) |
| Gain on debts discharged under the scheme of arrangement | *7* | **–** | 381,258 |
| Loss on group reorganisation | *7* | **–** | (260) |
| Finance costs | *8* | **–** | (6,629) |
| **(Loss)/profit before tax** | *9* | **(14,951)** | 385,200 |
| Income tax expenses | *10* | **(2)** | (2,342) |
| **(Loss)/profit and total comprehensive (expenses)/income for the year attributable to owners of the Company** | | **(14,953)** | 382,858 |
| **(Loss)/earnings per share attributable to owners of the Company** | | | |
| Basic and diluted (HK$ per share) | *12* | **(0.04)** | 2.73 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2013*

| | *Notes* | **2013** | 2012 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | | |
| Property, plant and equipment | | **146** | 237 |
| Prepayments, deposits and other receivables | | **23,375** | 26,375 |
| Goodwill | | **6,098** | 6,098 |
| | | **29,619** | 32,710 |
| **Current assets** | | | |
| Inventories | | **2,395** | 3,444 |
| Trade receivables | *13* | **64,616** | 72,318 |
| Prepayments, deposits and other receivables | | **9,110** | 8,134 |
| Bank and cash balances | | **75,705** | 66,952 |
| Current tax assets | | **1,826** | 928 |
| | | **153,652** | 151,776 |
| **Current liabilities** | | | |
| Trade and bills payables | *14* | **23,168** | 15,867 |
| Accruals, other payables and deposits received | | **14,558** | 8,015 |
| Current tax liabilities | | **–** | 106 |
| | | **37,726** | 23,988 |
| **Net current assets** | | **115,926** | 127,788 |
| **Total assets less current liabilities** | | **145,545** | 160,498 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **10** | 10 |
| | | **10** | 10 |
| **NET ASSETS** | | **145,535** | 160,488 |
| **Capital and reserves** | | | |
| Share capital | *15* | **4,002** | 4,002 |
| Reserves | | **141,533** | 156,486 |
| **TOTAL EQUITY** | | **145,535** | 160,488 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*

## 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") and the disclosure requirements of the Hong Kong Companies Ordinance.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. 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 policies and amounts reported for the current year and prior years except as stated below.

### a. Amendments to HKAS 1 "Presentation of Financial Statements"

Amendments to HKAS 1 titled "Presentation of Items of Other Comprehensive Income" introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### b. HKFRS 13 "Fair Value Measurement"

HKFRS 13 "Fair Value Measurement" establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of HKFRS 13 only affects disclosures on fair value measurements in the consolidated financial statements. HKFRS 13 has been applied prospectively.

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. 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 goods returns and trade discounts during the year.

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of goods | **544,824** | 651,562 |

## 4. OTHER INCOME

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Commission income | **1,426** | 840 |
| Food processing income | **–** | 6,810 |
| Interest income | **126** | 84 |
| Storage fee income | **2,269** | 5,486 |
| Sundry income | **175** | 17 |
| | **3,996** | 13,237 |

## 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, gain on debts discharged under the scheme of arrangement, loss on group reorganisation, restructuring costs and unallocated corporate income and expenses. Segment liabilities do not include deferred tax liabilities and unallocated corporate liabilities. Segment assets do not include goodwill and unallocated corporate assets.

Information about reportable segment revenue and results, assets and liabilities and other segment information is as follows:

| | **Frozen and functional food products** | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| **Segment revenue and results** | | |
| **Years ended 31 December** | | |
| Revenue from external customers | **544,824** | 651,562 |
| Segment (losses)/profit | **(11,252)** | 20,892 |

| | Frozen and functional food products | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| **Segment assets and liabilities** | | |
| **As at 31 December** | | |
| Segment assets | **176,602** | 178,388 |
| Segment liabilities | **36,504** | 23,538 |
| **Other segment information** | | |
| Amounts included in the segment profit or losses or segment assets: | | |
| Interest income | **(126)** | (58) |
| Depreciation | **93** | 87 |
| Allowance for trade receivables | **2,200** | – |
| Allowance for inventories | **1,846** | – |
| Additions to segment non-current assets | **2** | 78 |
| Amounts not included in the segment profit or losses or segment assets: | | |
| Income tax expenses | **2** | 2,342 |

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

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| **Profit or losses** | | |
| Profit or losses of reportable segment | **(11,252)** | 20,892 |
| Unallocated amounts: | | |
| Unallocated corporate income and expenses | **(3,699)** | (1,480) |
| Gain on debts discharged under the scheme of arrangement | **–** | 381,258 |
| Loss on group reorganisation | **–** | (260) |
| Restructuring costs | **–** | (8,581) |
| Finance costs arising from bank and other borrowings excluding bank overdraft | **–** | (6,629) |
| Consolidated (loss)/profit before tax | **(14,951)** | 385,200 |

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| **Assets** | | |
| Total assets of reportable segment | **176,602** | 178,388 |
| Unallocated amounts: | | |
| Goodwill | **6,098** | 6,098 |
| Unallocated corporate assets | **571** | – |
| Consolidated total assets | **183,271** | 184,486 |
| **Liabilities** | | |
| Total liabilities of reportable segment | **36,504** | 23,538 |
| Unallocated amounts: | | |
| Deferred tax liabilities | **10** | 10 |
| Unallocated corporate liabilities | **1,222** | 450 |
| Consolidated total liabilities | **37,736** | 23,998 |

**Geographical information:**

| | Revenue Year ended 31 December | | Non-current assets As at 31 December | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Mainland China | **460,651** | 542,058 | **–** | – |
| Hong Kong | **58,503** | 72,183 | **29,619** | 32,710 |
| Canada | **25,670** | 37,321 | **–** | – |
| Consolidated total | **544,824** | 651,562 | **29,619** | 32,710 |

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

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

| | **2013** |
|---|---|
| | ***HK$'000*** |
| Customer A | **120,062** |
| Customer B | **78,587** |
| Customer C | **56,289** |

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

## 6. RESTRUCTURING COSTS

The Group did not incur any restructuring costs for the year ended 31 December 2013 because the restructuring of the Group was completed in 2012. Restructuring costs of approximately HK$8,581,000 for the year ended 31 December 2012 mainly included the legal fees, fees to the financial advisor and the joint and several provisional liquidators of the Company (the "**Provisional Liquidators**") and other professional fees for implementing the proposed restructuring of the Company. Such expenses were financed by Groupwill Holdings Limited and non-recurring in nature.

## 7. THE SCHEME OF ARRANGEMENT AND GROUP REORGANISATION

**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 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 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 Court on 7 January 2009 to effect the appointment. The Provisional 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, namely, Groupwill Holdings Limited, Mr. Huang Kunyan, the Company and the Provisional Liquidators to grant Groupwill Holdings Limited 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 Groupwill Holdings Limited, 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 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 People's Republic of China (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, Groupwill Holdings Limited 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.

**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 was recognised during the year ended 31 December 2012, being calculated as follows:

| | 2012<br>*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, Jia Jing Commercial (Shanghai) Company Limited and Ningbo Dingwei Food Development Company Limited, which are the subsidiaries of the Smart Dragon International Trading Limited and First China Technology Limited and had been deconsolidated from the Group since 1 July 2008 (details of the deconsolidation were disclosed in notes 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.

| | 2012<br>*HK$'000* |
|---|---|
| Net assets of the Former Immediate Subsidiaries at the date of disposal 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 disposed 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 ended 31 December 2012.

## 8. FINANCE COSTS

| | **2013**<br>***HK$'000*** | 2012<br>*HK$'000* |
|---|---|---|
| Interest expenses on: | | |
| Bank borrowings wholly repayable within 1 year or on demand | **–** | 6,183 |
| Other borrowing wholly repayable within 1 year | **–** | 446 |
| | **–** | 6,629 |

## 9. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is stated after charging/(crediting) the following:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Directors' emoluments | | |
| — Directors' fees | **474** | 270 |
| — Salaries, wages and other benefits and retirement benefit scheme contribution | **521** | 147 |
| | **995** | 417 |
| Auditor's remuneration | **480** | 450 |
| Staff costs including directors' emoluments | | |
| Salaries, bonus and allowances | **5,627** | 2,748 |
| Retirement benefits scheme contributions | **201** | 149 |
| | **5,828** | 2,897 |
| Cost of inventories sold | **533,281** | 626,058 |
| Depreciation | **93** | 92 |
| Loss on property, plant and equipment written-off | **–** | 5 |
| Net exchange gains | **(290)** | (401) |
| Other operating lease charges on Sincere Gold Agreement | **3,000** | 3,000 |
| Operating lease charges on land and buildings | **978** | 899 |
| Allowance for trade receivables | **2,200** | – |
| Allowance for inventories (included in cost of sales) | **1,846** | – |

## 10. INCOME TAX EXPENSES

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Current tax — Hong Kong Profits Tax | | |
| Provision for the year | **30** | 2,372 |
| Tax refund for prior years | **(10)** | – |
| Over-provision in prior years | **(18)** | (29) |
| | **2** | 2,343 |
| Deferred tax | **–** | (1) |
| | **2** | 2,342 |

Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year.

Tax charge on profits assessable elsewhere has 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 2013 (2012: nil).

## 12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

**Basic (loss)/earnings per share**

The calculation of basic (loss)/earnings per share attributable to owners of the Company is based on the (loss)/profit for the year attributable to owners of the Company of approximately HK$14,953,000 (2012: profit of approximately HK$382,858,000) and the weighted average number of approximately 400,246,000 ordinary shares (2012: approximately 140,139,000 ordinary shares) in issue during the year.

**Diluted (loss)/earnings per share**

Diluted (loss)/earnings per share for the years ended 31 December 2013 and 2012 is the same as the basic (loss)/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:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **13,454** | 19,216 |
| More than 1 month but within 3 months | **12,478** | 23,619 |
| More than 3 months but within 6 months | **17,582** | 12,522 |
| More than 6 months but within 1 year | **17,493** | 8,594 |
| More than 1 year | **3,609** | 8,367 |
| | **64,616** | 72,318 |

## 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:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **7,977** | 4,694 |
| More than 1 month but within 3 months | **8,553** | 8,702 |
| More than 3 months but within 6 months | **4,465** | 2,129 |
| More than 6 months but within 1 year | **634** | – |
| More than 1 year | **1,539** | 342 |
| | **23,168** | 15,867 |

## 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.

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Authorised: | | |
| 800,000,000 ordinary shares of HK$0.01 each (Note (i)) | **8,000** | 8,000 |
| Issued and fully paid: | | |
| 400,246,274 ordinary shares of HK$0.01 each | **4,002** | 4,002 |

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 and prior years is as follows:

| | Number of shares issued<br>*'000* | Share capital<br>*HK$'000* |
|---|---|---|
| At 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, 1 January 2013 and 31 December 2013 | 400,246 | 4,002 |

*Notes:*

(i) **The capital restructuring of the Company took place and 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 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 Groupwill Holdings Limited 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 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 2013, the Group did not have any significant contingent liabilities (2012: nil).

## 17. PLEDGE OF ASSETS

As at 31 December 2013, the Group did not have any pledge of assets (2012: nil).

## 18. COMMITMENTS

**Operating lease commitments**

At the end of the reporting period, the Group had the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **579** | 824 |
| After 1 year but within 5 years | **33** | 543 |
| | **612** | 1,367 |

The leases typically run for an initial period of one to two years. None of the leases includes contingent rentals.

## SUMMARY OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

### "Basis for qualified opinion

As explained in note 11 to the consolidated financial statements, upon the scheme of arrangement of the Company and completion of the restructuring agreement 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 and a loss on group reorganisation of approximately HK$260,000 respectively for the year ended 31 December 2012.

Our audit opinion on the consolidated financial statements for the year ended 31 December 2012 was modified because we were unable to satisfy ourselves as to the gain on debts discharged under the scheme of arrangement of approximately HK$381,258,000 and the loss on group reorganisation of approximately HK$260,000 included in the consolidated statement of profit or loss and other comprehensive income. Our opinion on the current year's consolidated financial statements is also modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

### Qualified opinion

In our opinion, except for the possible effects on the corresponding figure 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 Company and of the Group as at 31 December 2013, 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

### Business Review

During the year, the Group continued to engage principally in processing and trading of frozen and functional food products which are sold mainly to the PRC, Hong Kong and Canada.

The Group continued to utilise the food processing facilities of the food processing plant in Jiangmen, the PRC, which was leased under the Sincere Gold Agreement entered into with an independent third party. During the year, some major countries with markets for frozen food products continued to suffer from economic hardship and pressure on global food trades and therefore affecting the performance of the Group. Especially, fluctuation and continuous downward trend in selling prices have been exerting pressure on the business volume and gross margin of the Group. Besides, under the challenging operating environment in 2013, allowance for trade receivables of approximately HK$2,200,000 (2012: nil) and allowance for inventories of approximately HK$1,846,000 (2012: nil) were made during the year. In addition, due to keen competition from other food processing plants, no food processing service was provided by the Group to outside customers and no food processing income was recorded during the year (2012: income of approximately HK$6,810,000). Selling and distribution expenses and administrative expenses were increased during the year 2013 as additional resources were applied for developing the distribution networks in the PRC and Hong Kong. These factors adversely affected the financial results of the Group and loss of approximately HK$14,953,000 was incurred for the year. However, it is encouraging that the Group began its first supply of frozen food products to one of the leading supermarket channel in Hong Kong, namely PARKnSHOP, during the year.

**Business Outlook**

*Food Processing and Trading Business*

Looking forward, with (i) the uncertain world economy that is anticipated to continue; (ii) the keen competition from other food traders; and (iii) the tightening standard on food safety, it is expected that there will be pressure on the performance in terms of both business volume and gross profit margin of the Group. To cope with these unfavorable market situations, the Group will continue to cautiously operate its frozen foods trading business and will focus on developing its food distribution platform to build up its sales network. In addition, the Group has been regularly reviewing the Sincere Gold Agreement with the food processing plant in Jiangmen, the PRC, in order to maintain operating efficiency for the food processing business of the Group and will continue to prudently implement the above strategies for the benefit of the Group and the shareholders of the Company. It is in the Directors' opinion that the business with PARKnSHOP, which began in 2013, will enhance the image and recognition of the Group's products which will be benefited to its frozen foods business in the long run.

*Profit Sharing from Macau Gaming Business*

On 19 March 2014, the Company completed the acquisition (the "**Acquisition**") of the entire issued share capital of and shareholder's loan to Excel Earth Limited ("**Excel Earth**") and obtained the profit guarantee given by the vendor (the "**Profit Guarantee**"). The principal asset of Excel Earth is its interests under, and entitlements to, the transfer of five percent (5%) of the distributable profit of Hang Seng Sociedade Unipessoal Limitada, for each twelve-month period (the "**Profit Transfer**"), which has commenced on 1 January 2014. Details of the Acquisition have been disclosed in the circular of the Company dated 8 January 2014.

By virtue of the Profit Transfer and the Profit Guarantee, it is expected that the Group will receive a secured and guaranteed annual income of HK$25 million on average with substantial upside potential over a period of 16 years. The applicable guaranteed profit share for the year ending 2014 is HK$24 million.

*Other potential investment opportunities*

As disclosed in the announcement of the Company dated 24 February 2014, the Directors have recently been in preliminary contacts and discussions with certain parties in relation to several eco-tourism, entertainment and gaming businesses. The Board does not rule out the possibility that the Company may carry out debt and/or equity fund raising plan(s) to improve its financial position in the event that suitable fund raising opportunities arise and/or to satisfy the financing needs arising out of any business development of the Group.

The Company will, as and when appropriate, comply with all relevant requirements, and where necessary, make further announcement(s) in accordance with the Listing Rules if any investment opportunities or fund raising events is substantiated.

**Financial Review**

***Financial Results***

For the year ended 31 December 2013, the Group recorded a turnover of approximately HK$544,824,000, decreased by approximately HK$106,738,000 or 16.4% with gross profit decreased by approximately HK$15,807,000 or 62.0%. The decrease in turnover and gross profit was mainly due to the decrease in sales volume and selling price to major frozen food products market as there was weak demand in frozen meat and poultry as well as keen competition faced. During the year, due to keen competition from other food processing plants, no food processing income was derived in 2013 (2012: income of approximately HK$6,810,000). Besides, the Group made a specific provision on certain slow-moving inventories and allowance for inventories of approximately HK$1,846,000 was made in 2013 (2012: nil). In addition, as at 31 December 2013, an allowance for trade receivables of approximately HK$2,200,000 was made for overdue receivables with aging period over 1 year. As a result of the decrease in turnover, gross profit and absence of food processing income together with the provision and allowance made, the Group incurred loss from operations of approximately HK$14,951,000 for the year ended 31 December 2013 (2012: profit from operations of approximately HK$19,412,000).

For the year ended 31 December 2012, there was an one-off exceptional gain on debts discharged under the scheme of arrangement amounting to approximately HK$381,258,000 with the restructuring costs incurred for group restructuring amounting to approximately HK$8,581,000 whilst there was no such exceptional gain and restructuring costs in 2013. The Group's loss attributable to owners of the Company was approximately HK$14,953,000 in 2013 (2012: profit of approximately HK$382,858,000) whereas basic loss per share for 2013 was HK$0.04 compared to basic earnings per share of HK$2.73 in 2012.

Notwithstanding that the independent auditor has issued a qualified opinion on the Company's consolidated financial statements for the year ended 31 December 2013, the Board would like to state that the qualified opinion is due to the corresponding figures of 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***

Save for the Acquisition, the Company did not have any significant investment, acquisition or disposal during the year that should be notified to the shareholders of the Company.

*Liquidity and Financial Resources*

As at 31 December 2013, total assets of the Group were approximately HK$183,271,000 (2012: approximately HK$184,486,000) comprising non-current assets of approximately HK$29,619,000 (2012: approximately HK$32,710,000) and current assets of approximately HK$153,652,000 (2012: approximately HK$151,776,000). In addition, the Group maintained a strong cash balance of approximately HK$75,705,000 as at 31 December 2013 (2012: approximately HK$66,952,000). As at 31 December 2013, the liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 4.07 times (2012: 6.33 times) and the Group's gearing ratio on the basis of the Group's interest bearing liabilities divided by total equity was nil (2012: nil) as the Group did not have any interest bearing bank and other borrowings.

*Capital structure*

As at 31 December 2013, the authorised share capital of the Company was HK$8,000,000, divided into 800,000,000 shares, of which 400,246,274 shares with the par value of HK$0.01 were in issue and fully paid or credited as fully paid. The Company had no bank borrowings or other significant long term liabilities.

*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 2013, the Group did not have any significant contingent liabilities (2012: nil).

*Pledge of Assets*

As at 31 December 2013, the Group did not have any pledge of assets (2012: nil).

**Change in control and mandatory cash offer**

On 12 September 2013, Inventive Star Limited ("**Inventive Star**"), which was wholly owned by Ms. Cui Lijie, had entered into a sale and purchase agreement with Groupwill Holdings Limited, pursuant to which Inventive Star had agreed to acquire and Groupwill Holdings Limited had agreed to sell 300,182,154 shares of the Company (the "**Sale Shares**"), at a total consideration of HK$300,182,154, equivalent to HK$1.00 per Sale Share. Completion of such Acquisition took place on 19 September 2013 and Inventive Star was interested in 300,182,154 shares, representing approximately 74.99% of the then entire issued share capital of the Company, and accordingly, Inventive Star was required to make a mandatory unconditional cash offer pursuant to Rule 26.1 of the Takeovers Code for all the issued shares of the Company which were not owned or had been agreed to be acquired by it and parties acting in concert with it (the "**Offer**"). The Offer was closed on 14 November 2013.

Having made all reasonable enquiries and to the best of the knowledge and belief of the Company, Inventive Star held 300,182,154 shares of the Company as at 31 December 2013, representing 74.99% of the entire issued share capital of the Company. Accordingly, the Company is in compliance with the public float requirement under the applicable Listing Rules.

**Events subsequent to the financial year ended 31 December 2013**

*Increase in authorised share capital*

The authorised share capital of the Company was increased to HK$16,000,000.00 by the creation of an additional 800,000,000 ordinary shares of HK$0.01 each in the share capital of the Company after the ordinary resolution in relation to the increase in authorised share capital was duly approved by the independent shareholders of the Company on 24 January 2014.

*Completion of major and connected transaction*

On 19 March 2014, the Acquisition was completed and as a result, Excel Earth had become a wholly-owned subsidiary of the Company. The Company had issued the convertible notes in the aggregate principal amount of HK$400 million to the vendor.

*Share subdivision and change in board lot size*

On 19 March 2014, the Board proposed that each existing issued and unissued share of HK$0.01 each in the share capital of the Company be subdivided into 20 subdivided shares of HK$0.0005 each (the "**Share Subdivision**" and the shares of HK$0.0005 each referred to as the "**Subdivided Shares**"). Upon the Share Subdivision becoming effective, the authorised share capital of the Company will be HK$16,000,000 divided into 32,000,000,000 Subdivided Shares, consisting of 8,004,925,480 Subdivided Shares which will be in issue and fully paid or credited as fully paid, and 23,995,074,520 unissued Subdivided Shares, assuming that no further shares are issued or repurchased after 19 March 2014 and prior to the Share Subdivision becoming effective.

The Board further proposed that, subject to and upon the Share Subdivision becoming effective, the board lot size be changed from 5,000 shares to 10,000 Subdivided Shares.

**Employees and Remuneration Policies**

The total number of staff of the Group as at 31 December 2013 was 23 (2012: 24). Total staff costs, including Directors' emoluments, amounted to approximately HK$5,828,000 (2012: approximately HK$2,897,000).

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

## Purchase, Redemption or Sale of Listed Shares

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2013.

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. The Company had made specific enquiries of all Directors regarding any non-compliance with the Model Code during the period under review, and received confirmations from all Directors that they had fully complied with the standards as set out in the Model Code.

## Corporate Governance

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Group and the enhancement of shareholders' value.

During the year ended 31 December 2013, the Company was in full compliance with the Code Provisions set out in Appendix 14 of the Listing Rules (the "**CG Code**"), except for the following deviation:

— *Code Provision A.4.1*

  This requires that the non-executive directors should be appointed for a specific term, subject to re-election. During the year up to 21 November 2013, the Company had one non-executive Director and three independent non-executive Directors. All of them were not appointed for a specific term, but subject to re-election in accordance with the Bye-laws of the Company. All of them resigned on 21 November 2013 and all of the existing independent non-executive directors are appointed for a specific term.

— *Code Provision A.5.6*

  This requires that the nomination committee should have a policy concerning diversity of board members. During the financial period since this code came into effect on 1 September 2013, the Company has yet to adopt the relevant policy. However, the board of directors and the nomination committee have adopted the board diversity policy on 24 March 2014.

— *Code Provision A.6.7*

  This stipulates that independent non-executive directors and other non-executive directors should attend the general meetings. Mr. Lee Wa Lun Warren as a non-executive Director and Mr. Leung King Yue Alex as an independent non-executive Director, both of which resigned on 21 November 2013, were unable to attend the annual general meeting and special general meeting of the Company held on 27 June 2013 due to their other important engagements.

— *Code Provision E.1.2*

The Chairman of the Board, who resigned on 21 November 2013, was unable to attend the annual general meeting of the Company held on 27 June 2013 due to his other important engagement.

— *Code Provision F.1.1*

This requires that the company secretary should be an employee of the Company. The Company engages an external service provider to participate in daily operation of the Company and provide full support to the board of directors. The company secretary reports to the executive directors of the Company directly.

**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. The Group's consolidated financial statements for the year ended 31 December 2013 have been reviewed and approved by the audit committee.

By order of the Board
**First Natural Foods Holdings Limited**
**Cai Lingli**
*Executive Director*

Hong Kong, 24 March 2014

*As at the date of this announcement, the Board comprises Ms. Cai Lingli and Ms. Xia Yuki Yu as executive directors; and Mr. Ng Hoi Yue, Mr. Tso Hon Sai Bosco and Mr. Lee Kwok Leung as independent non-executive directors.*

*In case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.*