
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or other registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or the licensed securities dealer or registered institution in securities, the bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

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FIRST NATURAL FOODS HOLDINGS LIMITED

(Provisional Liquidators Appointed)

第一天然食品有限公司*

(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

(stock code: 1076)

**PROPOSED RESTRUCTURING OF FIRST NATURAL FOODS HOLDINGS LIMITED
(PROVISIONAL LIQUIDATORS APPOINTED)**

**INVOLVING, INTER ALIA,
CAPITAL RESTRUCTURING,
CREDITORS' SCHEME OF ARRANGEMENT IN ACCORDANCE WITH
SECTION 166 OF THE COMPANIES ORDINANCE AND
SECTION 99 OF THE COMPANIES ACT,
OPEN OFFER ON THE BASIS OF SEVEN OFFER SHARES
FOR EVERY ONE NEW SHARE HELD ON THE OPEN OFFER RECORD DATE,
SUBSCRIPTION OF SUBSCRIPTION SHARES,
APPLICATION FOR THE WHITEWASH WAIVER,
CONSENT TO THE SPECIAL DEAL,
ELECTION OF DIRECTORS
AND
NOTICE OF SGM**

Financial Adviser to the Company and Underwriter of the Open Offer



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

**Independent Financial Adviser to the Independent Board Committee and the
Independent Shareholders**



高銀融資有限公司
GOLDIN FINANCIAL LIMITED

A letter from the Board and the Provisional Liquidators is set out on pages 18 to 80 of this circular. A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 83 to 109 of this circular.

A notice convening the special general meeting of the Company to be held at 10:00 a.m. on Monday, 6 August 2012, at Room 201 of the Hong Kong Council of Social Services, Duke of Windsor Social Service Building, No. 15 Hennessy Road, Wanchai, Hong Kong is set out on pages SGM-1 to SGM-8 of this circular. Whether or not you are able to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrars, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the meeting should you so wish.

* For identification purposes only

Hong Kong, 12 July 2012

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“acting in concert”	having the meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 26 March 2012 in relation to, among others, the Restructuring Agreement
“Asian Capital” or the “Underwriter”	Asian Capital (Corporate Finance) Limited, a corporation licensed under the SFO to carry on types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities as defined under the SFO, the financial adviser to the Company
“Application Form”	the application form for use by the Qualifying Shareholders to apply for the Offer Shares
“associate(s)”	having the meaning ascribed thereto under the Listing Rules
“Bermuda Court”	the Supreme Court of Bermuda
“Board”	the board of Directors
“business day(s)”	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capital Cancellation”	the proposed cancellation of the unissued share capital of the Company in its entirety immediately after the Capital Reduction becomes effective
“Capital Reduction”	the proposed reduction of the nominal value of each Share from HK\$0.05 to HK\$0.000125
“Capital Restructuring”	the proposed capital restructuring which involves the Capital Reduction, the Capital Cancellation, the Share Consolidation, the Increase in Authorised Share Capital and the Share Premium Reduction
“Cash Settlement”	HK\$62 million in cash to be paid by the Company to partially settle claims against, and liabilities of, the Company with the Creditors under the Scheme

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Charged Shares”	the 416,665,000 Shares registered in the name of Regal Splendid
“China” or “PRC”	the People’s Republic of China, but for the purposes of this circular and for geographical reference only (unless otherwise indicated), excludes the Macao Special Administrative Region of the PRC, Hong Kong and Taiwan
“Company”	First Natural Foods Holdings Limited (Provisional Liquidators Appointed), a company incorporated in Bermuda with limited liability, Shares of which are listed on the Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda as amended from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended from time to time
“Completion”	the completion of the Restructuring Agreement
“concert parties”	has the meaning ascribed to the term “parties acting in concert” including those presumed to be acting in concert, in the Takeovers Code
“Conditions Precedent”	the conditions precedent of the Restructuring Agreement, as set out paragraph headed “Conditions Precedent of the Restructuring Agreement” in this circular
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Court Order”	the order issued by the Hong Kong Court and the Bermuda Court, for the purpose of sanctioning the Scheme
“Creditors”	collectively all the creditors of the Company whose claims will be settled under the Scheme

DEFINITIONS

“Creditors Shares”	14,823,936 New Shares, representing approximately 3.7% of the issued share capital of the Company as enlarged by the issuance of the Offer Shares, the Subscription Shares and the Creditors Shares, the net proceeds from the sale of which will be used to partially settle claims against, and liabilities of, the Company with the Creditors under the Scheme
“Debenture”	the debenture created with a floating charge of the assets of Supreme Wit in favour of the Investor as the security of the Working Capital Facility
“Decision Letter”	the letter dated 30 September 2011 issued by the Stock Exchange to Asian Capital in relation to the granting of approval-in-principle for the Resumption
“Deutsche Bank”	Deutsche Bank AG
“Dingwei”	寧波市頂味食品開發有限公司 (Ningbo Dingwei Food Development Company Limited*), an indirect wholly-owned subsidiary of the Company incorporated in the PRC with limited liability, one of the Excluded Companies
“Director(s)”	the director(s) of the Company
“Effective Date”	the registration date of the Court Order sanctioning the Scheme granted by the Hong Kong Court with the Companies Registry in Hong Kong and the registration date of the Court Order sanctioning the Scheme granted by the Bermuda Court with the Registrar of Companies in Bermuda, whichever is the later
“Earnest Money”	the sum of HK\$5 million being paid by the Investor to a specially designated account of the Company upon signing of the Exclusivity Agreement
“Encumbrances”	include any mortgage, pledge, lien, charge, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance, assignment by way of security, hypothecation, security interest, any arrangements commonly referred to as “flawed assets” arrangements and set-off rights which exceed the rights under the insolvency set-off rules of any relevant jurisdiction, or any other security arrangement or agreement, whether relating to existing or future assets and whether conditional or not and “Encumbrance” shall be constructed accordingly

DEFINITIONS

“Excluded Companies”	<p>the following subsidiaries of the Company:</p> <ol style="list-style-type: none">(1) First China(2) First China (HK)(3) Smart Dragon(4) Longyu(5) Jiajing(6) Dingwei
“Excluded Shareholders”	<p>those overseas Shareholders to whom the Directors and the Provisional Liquidators (having obtained relevant and necessary legal opinions) consider it necessary or expedient not to offer the Offer Shares on account of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place</p>
“Exclusivity Agreement”	<p>the exclusivity agreement and the supplemental exclusivity agreement dated 30 July 2009 and 21 September 2010 respectively entered into among the Investor, Mr. Huang, the Company and the Provisional Liquidators in relation to, among others, granting the exclusivity period to the Investor to negotiate and enter into a restructuring agreement in relation to restructuring of the Company</p>
“Executive”	<p>the Executive Director of the Corporate Finance Division of the SFC or any of his delegates</p>
“First China”	<p>First China Technology Limited, a direct wholly-owned subsidiary of the Company incorporated in the BVI with limited liability, one of the Excluded Companies</p>
“First China (HK)”	<p>First China Technology (Hong Kong) Limited, a direct wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability, one of the Excluded Companies</p>
“Group”	<p>the Company and its subsidiaries</p>

DEFINITIONS

“Group Reorganisation”	the proposed reorganisation of the Group’s structure which envisages that all Excluded Companies and the rights and obligations of the Transferred Claims be transferred at a nominal value of HK\$1.00 to a nominee of the Scheme Administrators which was sanctioned by the Hong Kong Court on 16 May 2012
“Guarantor”	Mr. Huang being the guarantor of the Restructuring Agreement
“Highest Rich”	Highest Rich Limited, an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability, one of the New Subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Court”	the High Court of Hong Kong Special Administration Region
“Increase in Authorised Share Capital”	the increase of the authorised share capital of the Company to HK\$8,000,000 by the creation of additional 785,176,064 New Shares at a par value of HK\$0.01 each following completion of the Capital Reduction, the Capital Cancellation and the Share Consolidation
“Independent Board Committee”	the independent board committee of the Company, comprising Mr. Wong Chi Keung, Mr. Leung King Yue Alex and Mr. Tang Chi Chung Matthew, all are independent non-executive Directors
“Independent Financial Adviser”	Goldin Financial Limited, a licenced corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to voting at the SGM in respect of the Restructuring Agreement, the Open Offer, the Share Subscription, the issue of Creditors Shares under the Scheme, the Whitewash Waiver and the Special Deal and the transactions contemplated thereunder

DEFINITIONS

“Independent Shareholders”	Shareholders other than: (i) the Investor, Mr. Huang and their respective concert parties; (ii) Mr. Yeung and his concert parties and associates; and (iii) those Shareholders who are interested or involved in, the Restructuring Agreement, the Open Offer, the Share Subscription, the Scheme, the Special Deal and the Whitewash Waiver
“independent third party(ies)”	third party(ies) independent of the Company and its connected persons as defined under the Listing Rules
“Investor”	Group Will Holdings Limited, a company incorporated in the BVI with limited liability, which is wholly owned by Mr. Huang
“Issuance Costs”	any costs and expenses incidental to the issuance, transfer and disposal of Creditors Shares under the terms of the Scheme
“JM Kings Food”	江門市華深食品有限公司 (Jiangmen Huashen Food Company Limited*), a company incorporated in the PRC as a wholly-foreign-owned enterprise, one of the Sincere Gold Companies under the Sincere Gold Agreement
“Jiajing”	嘉璟商業(上海)有限公司 (Jia Jing Commercial (Shanghai) Company Limited*), an indirect wholly-owned subsidiary of the Company incorporated in the PRC with limited liability, one of the Excluded Companies
“Last Acceptance Date”	Friday, 24 August 2012, being the last date for acceptance of and payment for the Offer Shares
“Last Trading Day”	12 December 2008, being the last full trading day immediately before the suspension of trading in the Shares
“Latest Practicable Date”	9 July 2012, being the latest practicable date prior to the printing of this circular for ascertaining information in this circular
“Latest Time for Termination”	4:00 p.m., on Wednesday, 29 August 2012, being the latest time for the Underwriter to terminate the Underwriting Agreement
“Listing Appeals Committee”	the Listing Appeals Committee of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange

DEFINITIONS

“Listing Division”	the Listing Division of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	means 30 September 2012 or such later date as the parties to the Restructuring Agreement may agree in writing
“Longyu”	福清隆裕食品開發有限公司 (Fuqing Longyu Food Development Company Limited*), an indirect wholly-owned subsidiary of the Company incorporated in Fuqing, Fujian Province, the PRC with limited liability, one of the Excluded Companies
“Mr. Huang”	Mr. Huang Kunyan, the sole and beneficial owner and a director of the Investor and a third party independent of the Company and its connected persons
“Mr. Yang Le”	Mr. Yang Le, a former executive Director and the son of Mr. Yeung
“Mr. Yeung”	Mr. Yeung Chung Lung, a former executive Director and the former chairman of the Company and a registered shareholder of Regal Splendid which is the register holder of the Charged Shares
“New Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company upon the Capital Restructuring becoming effective
“New Subsidiaries”	Supreme Wit, Trendy Leader, Highest Rich, Pacific Prosper and Orient Legend, each as a wholly-owned subsidiary of the Company
“Newco 1”	Topping Bright Limited, a company incorporated in Hong Kong with limited liability, being a special purpose vehicle held and controlled by the Provisional Liquidators as at the Latest Practicable Date or such other company as may be nominated by the Scheme Administrators, and will be transferred to the Scheme Administrators for holding of the trust account of the Scheme

DEFINITIONS

“Newco 2”	Topping Chance Development Limited, a company incorporated in Hong Kong with limited liability, being a special purpose vehicle held and controlled by the Provisional Liquidators as at the Latest Practicable Date or such other company as may be nominated by the Scheme Administrators, and will be transferred to the Scheme Administrators for dealing with the Excluded Companies and the Transferred Claims
“Offer Price”	HK\$0.5622 for each of the Offer Shares
“Offer Shares”	New Shares to be allotted and issued under the Open Offer, being 103,767,552 New Shares
“Open Offer”	the proposed issue of the Offer Shares on the basis of seven Offer Shares for every one New Share held by the Qualifying Shareholder on the Open Offer Record Date at the Offer Price on the terms to be set out in the Prospectus Documents and summarised herein
“Open Offer Record Date”	the date by reference to which entitlements under the Open Offer to be determined
“Orient Legend”	Orient Legend International Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, one of the New Subsidiaries
“Pacific Prosper”	Pacific Prosper Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, one of the New Subsidiaries
“Petition”	the winding-up petition presented by the Company to the Hong Kong Court on 7 January 2009
“Posting Date”	Friday, 10 August 2012 or such other date as the Company and the Underwriter may agree in writing, being the date on which the Prospectus Documents shall be issued and despatched to the Shareholders as contemplated under the Underwriting Agreement
“PRC Legal Actions”	the legal actions lodged by the Provisional Liquidators in the PRC against Mr. Yeung and Mr. Yang Le, for their illegal possession of the properties of the PRC Subsidiaries
“PRC Subsidiaries”	Longyu, Jiajing and Dingwei

DEFINITIONS

“Pre-Completion Payments”	the total amounts advanced and to be advanced by the Investor prior to Completion by way of the Working Capital Facility (together with any interests accrued thereon) and other fee contributions for the costs associated with the Proposed Restructuring
“Profit Forecast”	the consolidated profit forecast of the Company for the year ending 31 December 2012, an extract of which is set out in Appendix V to this circular
“Proposed Restructuring”	the proposed restructuring of the Company, which involves, among others, the Capital Restructuring, the Open Offer, the Share Subscription, the Scheme, the Special Deal, the Whitewash Waiver and the Group Reorganisation
“Preferential Claim(s)”	any claims which have priority in a winding-up in Hong Kong pursuant to section 265 of the Companies Ordinance or would have priority in Bermuda pursuant to section 236 of the Companies Act
“Processing Agreement”	the processing agreement dated 26 April 2010 entered into between Trendy Leader and JM Kings Food in relation to the provision of food processing services to Trendy Leader
“Prospectus”	a document relating to the Open Offer to be despatched to Shareholders, in such form as may be agreed between the Company and the Underwriter
“Prospectus Documents”	the Prospectus and the Application Form
“Provisional Liquidators”	Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai, both of Ernst & Young Transactions Limited, appointed as the joint and several provisional liquidators of the Company
“Public Float”	having the same meaning ascribed thereto under Rule 8.08 of the Listing Rules
“Public Shareholders”	having the meaning ascribed thereto under the Listing Rules
“Qualifying Shareholders”	the Shareholders, other than the Excluded Shareholders, whose names appear on the register of members of the Company as at the close of business on the Open Offer Record Date

DEFINITIONS

“Regal Splendid”	Regal Splendid Limited (In Liquidation), a company incorporated in the BVI with limited liability
“Relevant Period”	the period commencing from 26 September 2011, being the date falling 6 months immediately prior to the date of the Announcement, and ending on the Latest Practicable Date
“Restructured Group”	the Group after completion of the Group Reorganisation
“Restructuring Agreement”	the restructuring agreement dated 5 January 2012 (supplemented by two side letters dated 1 June 2012 and 9 July 2012 respectively) entered into among the Company, the Provisional Liquidators, the Investor and the Guarantor in relation to the Proposed Restructuring of the Company
“Resumption”	the resumption of trading in the shares of the Company on the Stock Exchange
“Resumption Conditions”	the various conditions imposed by the Stock Exchange and set out in the Decision Letter (or any other conditions which may be imposed by the Stock Exchange) for the purpose of allowing the Resumption
“Resumption Proposal”	the proposal submitted to the Stock Exchange on 6 October 2010 (together with various subsequent relevant submissions) by Asian Capital on behalf of the Company for the purpose of seeking the Resumption
“Scheme”	the proposed scheme of arrangement for the Company under Section 166 of the Companies Ordinance and section 99 of the Companies Act, made between the Company and its Creditors, in its present form, or with or subject to any modification of it, any addition to it or any condition approved or imposed by the Hong Kong Court and/or the Bermuda Court
“Scheme Administrators”	such persons who are appointed as the scheme administrators or their successors pursuant to the terms of the Scheme
“Scheme Meeting”	the meeting of the Creditors convened on 26 April 2012 at the direction of the Bermuda Court and the Hong Kong Court
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held to consider, among others, all the resolutions of the Company necessary or appropriate in relation to the Restructuring Agreement, the Capital Restructuring, the issue of the Offer Shares, the Subscription Shares and the Creditors Shares, the Whitewash Waiver, the Special Deal and the Group Reorganisation
“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company before the Capital Restructuring
“Shareholder(s)”	holder(s) of the shares of the Company
“Share Consolidation”	the proposed consolidation of every 80 issued shares of the Company with par value of HK\$0.000125 each immediately upon the Capital Reduction becoming effective into one New Share
“Share Premium Reduction”	the proposed reduction of the share premium account of the Company as at 31 December 2011 of approximately RMB300 million, which will be applied to set off part of the accumulated losses of the Company
“Share Subscription”	the subscription of 266,830,850 New Shares by the Investor for the amount of approximately HK\$150 million at the Subscription Price
“Sincere Gold Agreement”	the agreement dated 5 October 2010 in relation to the Sincere Gold Rights
“Sincere Gold Assets”	all assets, equipment, property and rights (including the benefit of any debts, mortgage or charge) which Sincere Gold Companies own
“Sincere Gold Companies”	Sincere Gold International Group Holdings Limited, Kings Food Limited, Kings Holdings Limited (Hong Kong), JM Kings Food and 江門深盛食品有限公司 (Jiangmen Shum Shing Food Limited*)

DEFINITIONS

“Sincere Gold Properties”	the piece of land with an area of approximately 13,027 square meters located at No. 32 of Technology and Economic Zone of Jiangmen* (江門市高新區32號地段) together with a one story building and a two stories building erected on it, which are all owned by 江門深盛食品有限公司 (Jiangmen Shum Shing Food Limited*)
“Sincere Gold Rights”	the full rights to take, complete and deliver all the processing orders for and on behalf of the Sincere Gold Companies or under the name of any Sincere Gold Companies and to use, utilize and control the Sincere Gold Assets and Sincere Gold Properties for the purpose of taking, completing and delivering of all the orders placed by Pacific Prosper pursuant to the terms under the Sincere Gold Agreement
“Smart Dragon”	Smart Dragon International Trading Limited, a direct wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability, one of the Excluded Companies
“Special Deal”	the proposed settlement of the indebtedness of approximately HK\$68 million owed to Mr. Yeung under the Scheme, which will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.5622 being the price per Subscription Share at which the Investor agreed to subscribe for the Subscription Shares
“Subscription Shares”	266,830,850 New Shares to be allotted and issued by the Company to the Investor
“Sub-underwriting Letter”	the sub-underwriting letter issued by the Underwriter to the Investor dated 9 July 2012 for the Investor for acceptance to act as a sub-underwriter to subscribe for the Untaken Shares
“Supreme Wit”	Supreme Wit Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company, one of the New Subsidiaries
“Suspension”	the suspension of trading in the Shares since 15 December 2008

DEFINITIONS

“Swap”	a US\$ interest rate swap entered into between the Company and Deutsche Bank on 24 April 2007, with a notional amount of US\$100,000,000 and a tenor of 5 years
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Transferred Claims”	all cause(s) of actions and claim(s) which the Company is involved as at Completion
“Trendy Leader”	Trendy Leader Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company, one of the New Subsidiaries
“Untaken Shares”	Offer Shares which have been offered to but have not been accepted by the Qualifying Shareholders and the Offer Shares to which the Excluded Shareholders would have been entitled if they are regarded as the Qualifying Shareholders
“Underwriter”	Asian Capital, the underwriter appointed by the Company to underwrite the Offer Shares on fully written basis
“Underwriting Agreement”	the underwriting agreement dated 9 July 2012 entered into between the Company and the Underwriter in relation to the Open Offer, pursuant to which the Underwriter will fully underwrite the Offer Shares not accepted by the Shareholders under the Open Offer
“Whitewash Waiver”	a waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on the part of the Investor, Mr Huang and their concert parties to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by the Investor, Mr Huang and their concert parties as a result of the completion of the Share Subscription and/or the Open Offer
“Working Capital Facility”	the working capital facility up to HK\$70 million provided by the Investor to the Group pursuant to the terms of the Working Capital Facility Agreement

DEFINITIONS

“Working Capital Facility Agreement”	the working capital facility agreement dated 12 April 2010 (supplemented by a supplemental deed dated 18 February 2011) entered into between Supreme Wit and the Investor in relation to the provision of the Working Capital Facility
“HK\$” and “HK cents”	Hong Kong dollar(s) and cents, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent.

Certain English translation of Chinese names or words in this circular are included for information only, and are not official English translations of such Chinese names or words.

EXPECTED TIMETABLE

Event	Expected time and/or date (2012)
Expected date to obtain approval and/or consent from the Executive for the Whitewash Waiver and the Special Deal (<i>note 1</i>)	On or before Thursday, 2 August
Latest time to lodge the form of proxy for attending the SGM	10:00 a.m. on Saturday, 4 August
SGM	10:00 a.m. on Monday, 6 August
Announcement of the results of the SGM	Before 7:00 p.m. on Monday, 6 August
Expected effective date of the Capital Restructuring (<i>note 2</i>)	Tuesday, 7 August
Last day of dealing in New Shares on a cum-entitlement basis	Tuesday, 7 August
First day of dealing in New Shares on an ex-entitlement basis	Wednesday, 8 August
Open Offer Record Date	4:00 p.m. on Thursday, 9 August
Despatch of the Prospectus Documents	Friday, 10 August
Latest time for acceptance and payment for the Offer Shares	4:00 p.m. on Friday, 24 August
Latest time for termination of the Underwriting Agreement	4:00 p.m. on Wednesday, 29 August
Announcement of the allotment results of the Open Offer	Thursday, 30 August
The proceeds from the Share Subscription deposited into the designated bank account of the Company	Thursday, 30 August
Despatch of certificates for the New Shares (including the New Shares then in issue, the Offer Shares and the Subscription Shares) or refund cheques for the Open Offer, if the Open Offer is terminated (<i>note 2</i>)	Tuesday, 4 September
Payment of the Cash Settlement and the issue of Creditors Shares to the Scheme Administrators or their nominee(s)	Tuesday, 4 September

EXPECTED TIMETABLE

Production of a written confirmation to the Listing Division by an independent auditor regarding the items as set out in Resumption Condition No. 7	On or before Tuesday, 4 September
Full payment of all and any outstanding listing fees by the Company to the Stock Exchange	On or before Tuesday, 4 September
Cancellation of the Debenture	On or before Tuesday, 4 September
Submission of a confirmation from the Provisional Liquidators as to the working capital sufficiency of the Company as set out in the Resumption Condition No. 10	On or before Tuesday, 4 September
Completion of the Group Reorganisation	On or before Tuesday, 4 September
Expected effective date of the Scheme	Tuesday, 4 September
Completion of the placing down of New Shares by the Investor to meet the Public Float requirement (if applicable)	Tuesday, 4 September
Order granted by the Hong Kong Court to unconditionally or conditionally discharge the Provisional Liquidators in respect of the provisional liquidation of the Company (<i>note 3</i>)	Tuesday, 4 September
Completion of all the Resumption Conditions and publication of an announcement relating to the Resumption	Wednesday, 5 September
Expected date of the Resumption (<i>notes 4 and 5</i>)	Thursday, 6 September

Notes:

- (1) **The approval and/or consent from the Executive may or may not be granted. If it is granted, there is no certainty that it will be granted on or after the expected date as set out in the timetable above.**
- (2) **Subject to completion of the Capital Restructuring, the Company will post the new share certificates for the New Shares at the Company's expense. The old share certificates for the existing Shares will be void upon posting of the new share certificates on Tuesday, 4 September 2012.**
- (3) **Subject to the availability of the Hong Kong Court.**

EXPECTED TIMETABLE

- (4) Upon the Resumption, in order to facilitate the trading of odd lots of the New Shares arising from the Capital Restructuring and the Open Offer, the Company will appoint an agent to arrange for matching service, on a best effort basis, to those Shareholders who wish to top-up to a full board lot or sell their shareholdings of odd lots of the New Shares. Holders of the New Shares in odd lots should note that the matching of the sale and purchase of odd lots of the New Shares is on a best effort basis and successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed. Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility. Further announcement in respect of the details of the agent and the matching services will be made by the Company in due course.
- (5) The expected timetable set out above in relation to the Resumption is tentative and for indicative purposes only, and should there be any changes, the Company will issue further announcement(s) on the timetable as and when appropriate.
- (6) All references to time in this circular are references to Hong Kong time unless otherwise specified.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OPEN OFFER

If there is:

- a tropical cyclone warning signal number 8 or above; or
 - a “black” rainstorm warning
- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Last Acceptance Date, the latest time for acceptance of and payment for the Offer Shares will not take place at 4:00 p.m. on the Last Acceptance Date, but will be extended to 5:00 p.m. on the same day instead;
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Last Acceptance Date, the latest time for acceptance of and payment for the Offer Shares will not take place on the Last Acceptance Date, but will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares does not take place on the Last Acceptance Date, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. An announcement will be made by the Company in such event.



FIRST NATURAL FOODS HOLDINGS LIMITED

(Provisional Liquidators Appointed)

第一天然食品有限公司*

(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

(stock code: 1076)

Provisional Liquidators:

Mr. Liu Yiu Keung, Stephen

Mr. Yen Ching Wai, David

Executive Director:

Mr. Lee Wa Lun, Warren

Independent non-executive Directors:

Mr. Wong Chi Keung (Chairman)

Mr. Leung King Yue, Alex

Mr. Tang Chi Chung, Matthew

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Principal place of business:

62/F, One Island East

18 Westlands Road

Island East

Hong Kong

12 July 2012

To the Shareholders

Dear Sir or Madam,

**PROPOSED RESTRUCTURING OF FIRST NATURAL FOODS HOLDINGS LIMITED
(PROVISIONAL LIQUIDATORS APPOINTED)
INVOLVING, INTER ALIA,
CAPITAL RESTRUCTURING,
CREDITORS' SCHEME OF ARRANGEMENT IN ACCORDANCE WITH
SECTION 166 OF THE COMPANIES ORDINANCE AND
SECTION 99 OF THE COMPANIES ACT,
OPEN OFFER ON THE BASIS OF SEVEN OFFER SHARES
FOR EVERY ONE NEW SHARE HELD ON THE OPEN OFFER RECORD DATE,
SUBSCRIPTION OF SUBSCRIPTION SHARES,
APPLICATION FOR THE WHITEWASH WAIVER,
CONSENT TO THE SPECIAL DEAL
AND
ELECTION OF DIRECTORS**

INTRODUCTION

Reference is made to the Announcement, in which the Company announced that, after arm's length negotiations, the Company, the Provisional Liquidators, the Investor and the Guarantor entered into the Restructuring Agreement, in relation to, among others, the Capital

* For identification purposes only

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Restructuring, the Open Offer, the Share Subscription, the Scheme, the Group Reorganisation. Reference is also made to the announcement of the Company dated 9 July 2012 in relation to the Underwriting Agreement regarding the underwriting of the Open Offer.

The purpose of this circular is to provide the Shareholders with details of (i) the Restructuring Agreement, which entails, among others, the Capital Restructuring, the Open Offer, the Share Subscription, the Scheme and the Group Reorganisation; (ii) the Underwriting Agreement in respect of the Open Offer; (iii) the election of Directors; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Restructuring Agreement, the Capital Restructuring, the Open Offer, the Share Subscription, the Scheme and the Group Reorganisation; and (v) a notice of the SGM as set out on pages SGM-1 to SGM-8 of this circular.

RESTRUCTURING AGREEMENT

Date:

5 January 2012 (supplemented by side letters dated 1 June 2012 and 9 July 2012 respectively)

Parties:

- (i) the Company;
- (ii) the Provisional Liquidators;
- (iii) the Investor; and
- (iv) Mr. Huang as the Guarantor.

The Investor represents, warrants and undertakes to the Company that neither the Investor, its ultimate beneficial owner, nor parties acting in concert with any of them are connected with or acting in concert with any substantial shareholder, chief executive and/or directors of the Company and of its subsidiaries and their respective associates as defined in the Listing Rules and Takeovers Code.

Capital Restructuring

As at the Latest Practicable Date, the existing authorised share capital of the Company was HK\$100,000,000, divided into 2,000,000,000 Shares of HK\$0.05 each, of which 1,185,914,889 Shares were issued and credited as fully paid up, in the amount of HK\$59,295,744.45.

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Under the Restructuring Agreement, it is proposed that the Capital Restructuring will be put forward to the Shareholders for their approval at the SGM. The Capital Restructuring will entail the Capital Reduction, the Capital Cancellation, the Share Consolidation, an Increase in Authorised Share Capital and the Share Premium Reduction with details as follows:

Capital Reduction

The par value of every Share shall be reduced from HK\$0.05 to HK\$0.000125 by the reduction of HK\$0.049875 par value for each Share. The credit balance arising from the Capital Reduction of approximately HK\$59,147,505 will be applied in a manner as permitted by the Companies Act to, including but not limited to, the setting off of part of the accumulated losses of the Company as at 31 December 2011 of approximately RMB727,959,000 (equivalent to approximately HK\$818,050,000).

Capital Cancellation

The existing unissued share capital of the Company of HK\$40,704,255.55 will, after the completion of the Capital Reduction, be cancelled in its entirety resulting in the authorised share capital of the Company being reduced to approximately HK\$148,239.36.

Share Consolidation

Immediately after the Capital Reduction becomes effective, every 80 Shares of HK\$0.000125 each will be consolidated into one New Share of HK\$0.01 each. As a result, 1,185,914,889 issued shares of the Company of HK\$0.000125 each will be consolidated into 14,823,936 issued New Shares of HK\$0.01 each.

Increase in Authorised Share Capital

Immediately after the Share Consolidation becomes effective, the Company proposes to increase the authorised share capital of the Company from approximately HK\$148,239 to HK\$8,000,000 by the creation of 785,176,064 New Shares.

Share Premium Reduction

The entire amount standing to the credit of the share premium account of the Company as at 31 December 2011, which amounted to approximately RMB300 million, will be applied to set off against part of the accumulated losses of the Company or in a manner otherwise permitted by the Companies Act.

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Conditions precedent to the Capital Restructuring

The proposed Capital Restructuring will become effective conditional upon:

- (a) the passing of the necessary resolutions for (i) the Capital Reduction; (ii) the Capital Cancellation; (iii) the Share Consolidation; (iv) the Increase in Authorised Share Capital; and (v) the Share Premium Reduction by the Shareholders at the SGM;
- (b) compliance with the requirement of section 46(2) of the Companies Act in respect of the Capital Reduction; and
- (c) the Listing Committee having granted the listing of, and permission to deal in, the New Shares to be issued forthwith upon the Capital Restructuring becoming effective.

Timing of the Capital Restructuring

Subject to the above conditions being fulfilled, the Capital Restructuring is expected to become effective on Tuesday, 7 August 2012.

Effect of the Capital Restructuring

The following table sets out the effect of the Capital Restructuring on the share capital of the Company before and after the Capital Restructuring becoming effective:

	Before the Capital Restructuring	After the Capital Restructuring
Nominal value	HK\$0.05	HK\$0.01
Number of authorised shares	2,000,000,000	800,000,000
Authorised share capital	HK\$100,000,000 divided into 2,000,000,000 Shares	HK\$8,000,000 divided into 800,000,000 New Shares
Number of issued and paid-up shares	1,185,914,889	14,823,936
Issued and paid-up share capital	HK\$59,295,744.45	HK\$148,239.36

Reasons for the Capital Restructuring

The Capital Reduction is necessary in order to ensure that the Company's share capital accurately reflects the Company's available assets. The net assets of the Company have been substantially depleted by audited accumulated losses of approximately RMB727,959,000 (equivalent to approximately HK\$818,050,000) as at 31 December 2011.

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The Capital Restructuring will enable the re-capitalisation of the share capital of the Company through the issue of the New Shares. In addition, completion of the Capital Restructuring is one of the conditions precedent for the issue of the Subscription Shares, the Offer Shares and the Creditors Shares, the proceeds of which will be applied to the discharge of the Company's liabilities and as general working capital for the business operations of the Group. The Capital Restructuring will provide the Company with the flexibility to accommodate issues of the New Shares in the future when necessary. Fractional New Shares arising from the Capital Restructuring will be disregarded and not issued to the Shareholders but all such fractional New Shares will be aggregated and, if possible, sold for the benefit of the Company.

Accordingly, the Provisional Liquidators and the Directors are of the view that the implementation of the Capital Restructuring is in the best interests of the Company and the Shareholders as a whole.

Scheme

As at the Latest Practicable Date, to the best knowledge of the Provisional Liquidators and based on the available books and records of the Company, the Company has 34 Creditors with the estimated amount of claims against, and the liabilities of, the Company, being approximately HK\$405 million under the Scheme.

Pursuant to the Restructuring Agreement, it is proposed that the Scheme will be implemented. Upon the Scheme having become effective:

- (i) the Company will pay a cash sum of HK\$62 million after deducting relevant costs out of proceeds from the Share Subscription to the Creditors with claims admitted by the Scheme Administrators on a pro-rata basis under the Scheme;
- (ii) the Company will issue 14,823,936 Creditors Shares, representing approximately 3.7% of the issued share capital of the Company as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares, for the benefit of the Creditors. The Creditors Shares will be issued by the Company to the Scheme Administrators or Newco 1 or such other nominee(s), and the net proceeds from the sale of the Creditor Shares after deducting relevant costs will be paid to the Creditors with claims admitted by the Scheme Administrators on a pro-rata basis under the Scheme; and
- (iii) the Company will transfer the entire equity interests/share capital of the Excluded Companies, which are directly or indirectly held by the Company, and the rights and obligations of the Transferred Claims to Newco 2 or such other nominee of the Scheme Administrators at a nominal value of HK\$1.00. After such transfer, should there be any recovery from the Excluded Companies with the benefit of the conditions with the Scheme. The Scheme Administrators may in their sole and absolute discretion disposal of Newco 2 or realize or sell the shares of assets of the Excluded Companies for the benefit of the Creditors under the Scheme.

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Under the Scheme, except for the Preferential Claims, no other claims against the Company will receive any preferential treatments. All the Creditors with claims admitted by the Scheme Administrators under the Scheme will receive the Cash Settlement (after the settlement of the costs for petition for winding-up of the Company, the Preferential Claims, the Issuance Costs and the costs of the Scheme), proceeds derived from the sale of the Creditors Shares and realisation of the assets of the Excluded Companies, if any, proportionally based on their claims admitted by the Scheme Administrators.

As set out in the Company's announcement dated 26 April 2012, at the Scheme Meeting held on 26 April 2012, the resolution approving the Scheme was duly passed by the Creditors. The Scheme, which was sanctioned by the Hong Kong Court and the Bermuda Court on 16 May 2012 and 18 May 2012 respectively, shall become effective and legally binding on the Company and all the Creditors, including those voting against the Scheme and those not voting in the Scheme Meeting.

As set out in the section headed "Expected Timetable" in this circular, it is expected that the Scheme will become effective on Tuesday, 4 September 2012.

Upon completion of the Scheme, all the claims against, and liabilities of the Company (excluding the normal operating liabilities incurred during the ordinary course of business operations of the Group) will be discharged and compromised in full.

Share Subscription

Under the Restructuring Agreement, subject to fulfilment of the Conditions Precedent, the Investor agreed to subscribe for and the Company agreed to issue and allot 266,830,850 Subscription Shares at the Subscription Price of HK\$0.5622 per Subscription Share for a total consideration of approximately HK\$150 million.

Number of the Subscription Shares

The number of 266,830,850 Subscription Shares represents:

- (a) approximately 22.5% of the existing issued share capital of the Company;
- (b) approximately 1,800.0% of the issued share capital of the Company upon completion of the Capital Restructuring;
- (c) approximately 225.0% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares;
- (d) approximately 69.2% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares and the Subscription Shares; and

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- (e) approximately 66.7% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares.

Open Offer

Pursuant to the Restructuring Agreement, subject to the Capital Restructuring becoming effective, the Company will take such steps as are necessary to implement the Open Offer on the basis of seven (7) Offer Shares for every one (1) New Share held on the Open Offer Record Date by the Qualifying Shareholders. A total of 103,767,552 Offer Shares will be allotted and issued by the Company to the Qualifying Shareholders at the Offer Price of HK\$0.5622 for each Offer Share and the gross proceeds raised via the issue of the Offer Shares will be approximately HK\$58,338,000.

Issue statistics of the Open Offer

Basis of the Open Offer	:	Seven Offer Shares for every one New Share to be held on the Open Offer Record Date
Number of Shares in issue as at the Latest Practicable Date	:	1,185,914,889 Shares
Number of New Shares in issue upon the Capital Restructuring becoming effective	:	14,823,936 New Shares
Number of Offer Shares to be issued	:	103,767,552 Offer Shares, representing: (a) approximately 8.7% of the existing issued share capital of the Company; (b) 700.0% of the issued share capital of the Company upon completion of the Capital Restructuring; (c) approximately 87.5% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares; (d) approximately 26.9% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares and the Subscription Shares; and

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- (e) approximately 25.9% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares.

Total number of New Shares in issue as enlarged upon completion of the Open Offer	:	118,591,488 New Shares
Offer Price	:	HK\$0.5622 per Offer Share payable in full on acceptance
Number of Underwritten Share fully underwritten by the Underwriter	:	103,767,552 Offer Shares

As at the Latest Practicable Date, the Company has not procured any undertaking and has not received any undertaking provided by any Shareholders to subscribe for his entitlement under the Open Offer or any arrangement that may have an effect on the Open Offer.

Underwriting arrangement

As set out in the paragraph headed “Underwriting Agreement” below in this circular, Asian Capital was appointed as the Underwriter to underwrite the Offer Shares on a fully underwritten basis. Pursuant to the Sub-underwriting Letter, Asian Capital has procured the Investor as a sub-underwriter to subscribe for up to 103,767,552 Offer Shares, i.e. the maximum number of the Untaken Shares.

The intention of the underwriting is to ensure that the Offer Shares could be placed to a wider range of investors. However, due to the current market conditions, the Underwriter has not yet been able to identify suitable sub-underwriters. Further, as set out in the table in scenario A under paragraph headed “Effect on shareholding structure of the Company” below, in the event that the Investor as the underwriter fully underwrites the Open Offer, the Investor may end up be interested in approximately 92.6% share capital of the Company after the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares. In such event, the Investor may have to enter into placing agreement(s) with licensed placing agent(s) to place down certain portion of the Offer Shares to other independent investors to meet the Public Float requirement. As such, after discussions among the Company, the Investor and Asian Capital, it is decided that Asian Capital as the Underwriter will fully underwrite the Open Offer, and identify and procure other potential independent investors to subscribe for the Untaken Shares, and the Investor as the sub-underwriter for the Open Offer will sub-underwrite all the Untaken Shares. In the event that Asian Capital cannot identify or procure any other investors to subscribe

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for the Untaken Shares, pursuant to the Sub-underwriting Letter, the Investor is required to place down certain portion of the Offer Shares to other independent investors to meet the Public Float requirement and the Resumption Conditions.

Offer Price and Subscription Price

The Subscription Price and the Offer Price being the same at HK\$0.5622 for each of the Subscription Shares and the Offer Shares represent:

- (a) a discount of approximately 97.6% to the theoretical closing price of HK\$23.6 per share as adjusted for the effect of the Capital Restructuring based on the closing price of HK\$0.295 per Share as quoted on the Stock Exchange on the Last Trading Day, being the last full trading day immediately before the suspension of trading in the Shares;
- (b) a discount of approximately 97.5% to the average theoretical closing price of HK\$22.64 per share as adjusted for the effect of the Capital Restructuring based on the average closing price of HK\$0.283 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (c) a discount of approximately 97.5% to the average theoretical closing price of HK\$22.68 per share as adjusted for the effect of the Capital Restructuring based on the average closing price of HK\$0.284 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and
- (d) a premium of approximately HK\$30.14 over the audited consolidated net liabilities per New Share of approximately HK\$29.57 as at 31 December 2011 (based on the Company's audited consolidated net liabilities of approximately HK\$438.4 million as at 31 December 2011 and 14,823,936 New Shares in issue upon the Capital Restructuring becoming effective).

The unaudited pro forma net tangible assets value per Offer Share as at 31 December 2011 is approximately HK\$0.355 (equivalent to approximately RMB0.29) per share (based on the unaudited pro forma adjusted consolidated net tangible assets being approximately HK\$140,605,000 (equivalent to approximately RMB114,963,000) as at 31 December 2011 as if the Proposed Restructuring had been completed on 31 December 2011 as set out in "Unaudited Pro Forma Financial Information of the Group" in Appendix III to this circular and number of New Shares being 400,426,274 after the Capital Restructuring and as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares).

The Offer Price and the Subscription Price were determined after arm's length negotiations between the Company and the Investor having regard to the fact that the Provisional Liquidators have been appointed and the long suspension of trading in the Shares on the Stock Exchange, the prevailing stock market conditions, the prospects of

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the business operations of the Group and the audited consolidated net liabilities per New Share in issue of approximately HK\$29.57 assuming the Capital Restructuring becoming effective on 31 December 2011.

Qualifying Shareholders

The Open Offer will only be available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Prospectus, for information only, to the Excluded Shareholders.

To qualify for the Open Offer, the Shareholder must be registered as a member of the Company on the Open Offer Record Date and not be an Excluded Shareholder.

Record Date for the Open Offer

The Open Offer Record Date will be at 4:00 p.m. on Thursday, 9 August 2012.

Fractions of Offer Shares

No fractional entitlements or allotments are expected to arise as a result of the Open Offer.

Share certificates for the fully-paid Offer Shares and refund cheques

Subject to fulfillment of the conditions of the Open Offer, share certificates for all fully paid Offer Shares are expected to be posted to the Qualifying Shareholders who have successfully applied for, and paid for them, after the Latest Time for Termination, at their own risk. The board lot size of the fully paid Offer Shares is 5,000 and the theoretical board lot value of the Offer Shares will be HK\$2,811. If the Open Offer is terminated, refund cheques will be despatched on or before Tuesday, 4 September 2012 by ordinary post at the respective Shareholders' own risk.

Rights of Excluded Shareholders

If, on the Open Offer Record Date, a Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents are not expected to be registered and/or filed under the applicable securities legislation of any jurisdictions outside Hong Kong. The Board will make enquiries as to whether the offer of the Offer Shares, the despatch of the Prospectus Documents or the issue of Offer Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory bodies or stock exchanges pursuant to Rule 13.36(2)(a) of the Listing Rules. If, based on the legal opinions provided by the relevant overseas advisors to the Company, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares to such Overseas Shareholders on account of either the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or

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stock exchange in that place, the Open Offer will not be available or extended to such Overseas Shareholders. The results of the enquiries and the basis of any exclusion of the Excluded Shareholders will be included in the Prospectus.

The Company will send the Prospectus, for information only, to the Excluded Shareholders (if any) and will not send any Application Form in respect of the assured allotment of Offer Shares to the Excluded Shareholders. However, so long as the Excluded Shareholders are Independent Shareholders, they are entitled to cast their votes on the resolution(s) in relation to the Open Offer in the SGM.

No Transfer of nil-paid entitlements, no application for excess Offer Shares

The invitation to subscribe for Offer Shares to be made to the Qualifying Shareholders will not be transferable. There will not be any trading in nil-paid entitlements on the Stock Exchange. The Company has also decided that the Qualifying Shareholders will not be entitled to subscribe for any Offer Share in excess of their respective assured entitlements. Considering that each Qualifying Shareholder will be given equal and fair opportunities to participate in the Company's future development by subscribing for their respective entitlements under the Open Offer, the Company considers it appropriate not to put in additional effort and costs to administer the excess application procedures. Any Offer Shares not taken up by the Qualifying Shareholders will be underwritten by the Underwriter.

Status of the Offer Shares

The Offer Shares (when fully paid and allotted) will rank *pari passu* in all respects with the New Shares in issue on the date of allotment. Holders of such shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of the allotment and issue of the New Shares.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between the Exchange Participants on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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Conditions of the Open Offer

Completion of the Open Offer is conditional, among others, upon:

- (i) the obligations of the Underwriter becoming unconditional (which shall mean the conditions precedent to the Underwriting Agreement having been satisfied) pursuant to the terms of the Underwriting Agreement and the Underwriting Agreement is not terminated on or before the Latest Time for Termination; and
- (ii) the Scheme and any modifications thereto being sanctioned by the Hong Kong Court and the Bermuda Court.

As at the Latest Practicable Date, condition (ii) has been fulfilled. All the conditions above cannot be waived.

Reasons for the Open Offer

As set out in paragraphs headed “Reasons and benefits for the entering into the Restructuring Agreement” below, trading in the Company’s shares on the Stock Exchange has been suspended since 15 December 2008, and the Company, the Provisional Liquidators, the Investor and the Guarantor entered into the Restructuring Agreement with the aim to restructuring the Company. The Open Offer, which forms part of the restructuring plan, not only provides additional funds to the Company, but also allows the existing Shareholders to participate in the Proposed Restructuring. Accordingly, the Directors and the Provisional Liquidators consider that the Open Offer is in the interests of the Company and its Shareholders as a whole.

Underwriting Agreement

As set out in the Company’s announcement dated 9 July 2012, on 9 July 2012, the Company and the Underwriter entered into the Underwriting Agreement. The Underwriter, which is licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is also the financial advisor to the Company.

Save for that, the Underwriter is an independent third party of the Company or any of the Directors, chief executive, substantial shareholders of the Company or any of their respective associates. Save for being engaged as the financial advisor to the Company, the entering into the Underwriting Agreement with the Company, and the entering into the Sub-underwriting Letter with the Investor, there is no other agreement or arrangement between the Underwriter and the Company or the Investor, its ultimate beneficial owner and parties acting in concert with any of them.

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Conditions precedent of the Underwriting Agreement

Completion of the Underwriting Agreement is conditional, among other things, upon:

- (i) the Capital Restructuring becoming effective;
- (ii) the passing of the necessary resolutions by the Independent Shareholders in the SGM to approve the Open Offer, the Share Subscription, the Whitewash Waiver and the Special Deal;
- (iii) the Executive granting the Whitewash Waiver and the satisfaction of any conditions attached thereto;
- (iv) the Executive granting the consent to the Special Deal and the satisfaction of any conditions attached thereto;
- (v) the Scheme being sanctioned by the Hong Kong Court and Bermuda Court;
- (vi) the duly execution of the Underwriting Agreement and the Underwriting Agreement not being terminated or rescinded by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- (vii) the delivery to the Stock Exchange for authorization and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors as having been approved by the resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Posting Date;
- (viii) the filing of one copy of each of the Prospectus Documents (and all other documents required to be attached thereto) with the Registrar of Companies in Bermuda in compliance with the Companies Act 1981 of Bermuda (as amended) prior to or as soon as reasonably practicable after the Posting Date;
- (ix) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Excluded Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Posting Date; and
- (x) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, the Offer Shares by no later than the first day of their dealings.

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As mentioned under the heading “Conditions Precedent of the Restructuring Agreement” below, one of the Conditions Precedent for completion of the Restructuring Agreement is the granting of the Whitewash Waiver by the Executive. Subject to production of satisfactory evidence that the Investor has sufficient financial resources to make a general offer for all the Shares and New Shares (as the case may be) pursuant to the Takeovers Code, the Investor shall have the right to waive the Conditions Precedent in relation to the obtaining of the Whitewash Waiver (i.e. Condition Precedent (f)) or the passing of the related resolution for Whitewash Waiver (i.e. Condition Precedent (e) (iv)) of the Restructuring Agreement. If the Investor exercises its right to waive Condition Precedent (f) or (e) (iv) of the Restructuring Agreement in relation to the Whitewash Waiver, the Underwriter shall have the right to waive item (ii) in relation to the Whitewash Waiver and (iii) of the conditions precedent of the Underwriting Agreement above.

Save for the above, none of the above conditions precedent can be waived. As at the Latest Practicable Date, item (v) of the conditions precedent above has been fulfilled.

Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter’s obligations thereunder on the occurrence of certain events.

The Underwriter may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination, any of the following happens:

- (a) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (1) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (2) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, financial, economic, currency market or other nature (whether or not ejusdem generic with any of the foregoing) or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

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- (3) any material adverse change; or
 - (4) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (5) the commencement or taking by any third party of any litigation or claim or other action against any member of the Group which is or might be material to the Group taken as a whole; or
- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the PRC or other jurisdiction relevant to the business of the Group or any member of the Group and a change in currency conditions for the purpose of the Underwriting Agreement includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (c) the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement of a material nature which would materially and adversely affect the success of the Open Offer; or
- (d) any statement contained in the Prospectus or the Circular has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect, or matters have arisen or have been discovered which would, if the Prospectus or the Circular was to be issued at the time, constitute a material omission therefrom.

The Company may, by way of giving written notice to the Underwriter, to terminate and rescind the Underwriting Agreement at any time before the Latest Time for Termination if the Restructuring Agreement is terminated pursuant to the terms thereto.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Whitewash Waiver

Immediately upon completion of the Share Subscription, the Investor and its concert parties will be interested in 266,830,850 New Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her entitlement under the Open Offer), representing:

- (a) approximately 1,800.0% of the issued share capital of the Company upon completion of the Capital Restructuring;
- (b) approximately 69.2% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares and the Subscription Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her entitlement under the Open Offer); and
- (c) approximately 66.7% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her entitlement under the Open Offer).

Pursuant to Rule 26 of the Takeovers Code and in the absence of the Whitewash Waiver, the Investor and its concert parties would trigger an obligation to make a mandatory general offer for all the shares of the Company other than those already owned or agreed to be acquired by the Investor and its concert parties. In this respect, the Investor has made an application to the Executive under the Takeovers Code for the Whitewash Waiver to relieve it from its obligation to make a mandatory general offer as a result of the completion of the Share Subscription, and such grant will be subject to, among other things, approval of the Independent Shareholders in respect of the Whitewash Waiver at the SGM by way of poll.

As the shareholding of the Investor exceeds 50% of the issued share capital of the Company following the completion of the Share Subscription, the Investor may increase its shareholding in the Company without incurring any further obligation to make a general offer under the Takeovers Code.

Save for the entering into the Restructuring Agreement and the Sub-underwriting Letter, the Investor and its concert parties confirm that they have not dealt in the securities of the Company during the six month period prior to the entering into of the Restructuring Agreement and up to the date of this circular. The Investor and its concert parties do not hold any shares, outstanding options, derivatives, warrants or other securities convertible into shares of the Company as at the date of this circular and, save for the entering into the Restructuring Agreement, they have also undertaken not to deal in the securities of the Company before the completion of the Share Subscription.

The Investor and its concert parties and those who are interested in and/or involved in, the Open Offer, the Share Subscription and/or the Whitewash Waiver and/or the Special Deal will abstain from voting on the resolutions approving the Open Offer, the Share Subscription, the Whitewash Waiver and the Special Deal.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Special Deal

As at the Latest Practicable Date, Mr. Yeung is the registered shareholder of the entire share capital of Regal Splendid, which in turn is the registered shareholder of 416,665,000 Shares, representing approximately 35.13% of the issued share capital of the Company. Based on the books and records available to the Directors and the Provisional Liquidators, the Company owes approximately HK\$68 million, which arises from transactions over the years, to Mr. Yeung. Therefore, Mr. Yeung is a potential Creditor under the Scheme. As at the Latest Practicable Date, Mr. Yeung has not filed any claim to the Provisional Liquidators.

Under the Scheme, the indebtedness owed to the Creditors will be settled partially by proceeds from the sales of the Creditors Shares and partially by the Cash Settlement which will be funded by the proceeds from the Share Subscription. The Creditors Shares will be issued by the Company to Newco 1 or such other nominee of the Scheme Administrators which will then be sold by the Scheme Administrators in their absolute discretion for the benefit of the Creditors. In the event that Mr. Yeung files claim against the Company and such claim is not disputed by the Provisional Liquidators and/or the Scheme Administrators and subject to adjudication, adjustment and relevant costs involved, it is estimated that approximately HK\$9.5 million, being the apportioned part of the sale proceeds of the Creditors Shares and the Cash Settlement, together with apportioned part of the realization of the assets of the Excluded Companies, if any, will be paid to Mr. Yeung under the Scheme. The settlement with Mr. Yeung under the Scheme will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code.

As set out in paragraph headed “Litigations” in Appendix VII to this circular, on 2 May 2012, the Company filed a protective Writ of Summons to the Hong Kong Court against Mr. Yeung for, *inter alia*, a claim of not less than HK\$84,024,846 which relates to the missing funds of the Company and a claim for damages and/or compensation, for breach of trust and fiduciary and other duties owed by Mr. Yeung to the Company. After issue of the protective Writ of Summons, the Company would have 12 months’ time from 2 May 2012 to serve the Writ of Summons.

As set out in the Company annual reports for the years ended 31 December 2008, 2009, 2010 and 2011, the Provisional Liquidators have taken the PRC Legal Actions to seek to regain control of the PRC Subsidiaries and to preserve the assets of the Group. However, the PRC Legal Actions met with immense resistance from Mr. Yeung and Mr. Yang Le. Please refer to annual reports for the years ended 31 December 2008, 2009, 2010 and 2011 or the paragraphs headed “Management Discussion and Analysis of the Group for the Year Ended 31 December 2010” in Appendix I to this circular for further details of the PRC Legal Actions.

The Provisional Liquidators have identified that the Company has potential claims against Mr. Yeung in relation to certain inter-company loans due from the PRC Subsidiaries to the Company as at 31 December 2011 and the distributions of dividend by the Company to the Shareholders from 2002 to 2008. However, these potential claims require further investigations and assets search as well as are subject to legal advice. Pursuant to an order of Hong Kong Court dated 16 May 2012, upon the Scheme becoming effective, the rights

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

and obligations of all cause(s) of actions and claim(s), which the Company is involved as at Completion, will be transferred to special purpose vehicles of the Scheme Administrators for a nominal consideration of HK\$1.00 for the benefit of the Creditors under the Scheme. Pursuant to the terms of the Scheme, HK\$8 million will be reserved from the scheme fund to finance the necessary investigations, legal advices and actions. After the Scheme becomes effective, the Scheme Administrators will consider carrying out legal actions against Mr. Yeung in relation to the aforesaid inter-company loans and the distributions of dividend.

Save for Mr. Yeung's potential claim which is classified as disputed claims under the Scheme as set out above, to the best knowledge and information of the Directors and the Provisional Liquidators, having made all reasonable enquiries, there are no other Creditors who will be allotted the Creditors Shares or be paid the Cash Settlement together with any dividend distributed by or any recovery from the Excluded Companies under the Scheme who are also the Shareholders.

The Company will seek an approval of the Independent Shareholders at the SGM by way of poll to approve the Special Deal. An application has been made by the Company to the Executive for the necessary consent to the Special Deal and such consent, if granted, will be conditional upon the Special Deal being approved by Independent Shareholders by way of poll at the SGM and the Independent Financial Adviser publicly states in its opinion that the terms of the Special Deal are fair and reasonable. As at the Latest Practicable Date, the Executive has not granted his consent to the Special Deal. The Executive has not indicated whether the Special Deal consent will be granted or not, or if granted whether it will be subject to other conditions.

Mr. Yeung, his concert parties and associates are considered to be parties interested in and/or involved in the Open Offer, the Share Subscription, the Whitewash Waiver and the Special Deal, and shall, therefore, not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM. However, the voting rights of the Charged Shares have been vested to the provisional liquidators of Regal Splendid according to the order of Hong Kong Court dated 16 March 2012, pursuant to which, the provisional liquidators have been appointed to take control of Regal Splendid, and they are empowered to, among others, exercise Regal Splendid's rights in the Charged Shares in the best interests of creditors of Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder's meeting of the Company.

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Status of the Subscription Shares, the Offer Shares and the Creditors Shares

When fully paid and allotted, the Offer Shares, the Subscription Shares and the Creditors Shares, which will be allotted and issued under a specific mandate to be sought from the Independent Shareholders at the SGM, will rank pari passu in all respects among themselves, including all rights to dividend, distributions, which may be declared, made or paid by the Company, voting and interest in capital, with the New Shares in issue (after the Capital Restructuring becomes effective) as at the date of allotment and issue of the Offer Shares, the Subscription Shares and the Creditors Shares.

Listing application for the New Shares, the Offer Shares, the Subscription Shares and the Creditors Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares, the Offer Shares, the Subscription Shares and the Creditors Shares.

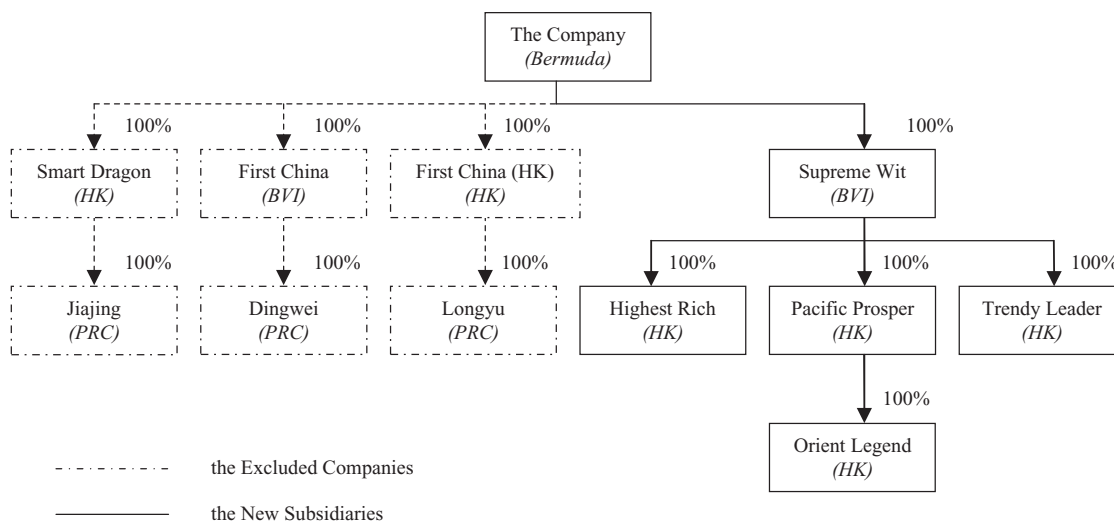
Group Reorganisation

As set out in the paragraph headed “Business Operations of the Group” below, after many attempts made by the Provisional Liquidators, the Company has still not been able to exert control and authority over the PRC Subsidiaries since the appointment of the Provisional Liquidators, as such, financial results of the PRC Subsidiaries had been deconsolidated from the Group’s financial statements since 1 July 2008. At present, the Company’s existing business operations are mainly carried on by the New Subsidiaries, whereas Smart Dragon, First China and First China (HK) do not have any business operations except for being as the holding companies of the PRC Subsidiaries.

In order to streamline the organisation structure of the Group and to facilitate the implementation of the Proposed Restructuring and the future expansion of the Company, it is proposed that the Company will transfer the entire share capital/equity interests of the Excluded Companies, which are directly or indirectly held by the Company, and rights and obligations of the Transferred Claims to Newco 2 or such other nominee of the Scheme Administrators for a nominal consideration of HK\$1.00. After such transfer, should there be any recovery from the Excluded Companies, the Scheme Administrators may in their sole and absolute discretion dispose of Newco 2 or realize or sell the assets of the Excluded Companies and the Transferred Claims for the benefit of the Creditors under the Scheme. The Group Reorganisation was sanctioned by Hong Kong Court on 16 May 2012.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Upon completion of the Group Reorganisation, only the New Subsidiaries will remain in the Restructured Group, namely, Supreme Wit, Highest Rich, Pacific Prosper, Trendy Leader and Orient Legend. All the Excluded Companies will cease to be subsidiaries or associated companies of the Company and their financial results will no longer be consolidated into the Group's financial statements upon completion of the Group Reorganisation. The Group's corporate structure before the Group Reorganisation is set out below:



Conditions Precedent of the Restructuring Agreement

Completion of the Restructuring Agreement is conditional upon the fulfilment (or valid waiver) of the following conditions on or before the Long Stop Date:

- a) the approval of the Scheme by the requisite majority of the Creditors at the Scheme Meeting(s);
- b) the sanction by the Hong Kong Court and Bermuda Court of the Scheme and registration of a copy of the relevant court order sanctioning the Scheme with the Registrar of Companies in Hong Kong and Bermuda respectively;
- c) if required, the consent or approval of all other relevant government or regulatory authorities in relation to the Scheme, the Restructuring Agreement and the Resumption Proposal (including the issue of the Offer Shares, the Subscription Shares and Creditors Shares);
- d) compliance by the Company with the requirements of Section 46 (2) of the Companies Act in respect of the Capital Reduction;
- e) the passing of the resolutions to approve, among other things (i) the Capital Restructuring; (ii) the Open Offer; (iii) the Share Subscription; (iv) the Whitewash Waiver; and (v) the Special Deal, by the Shareholders (with resolution (ii), (iii), (iv) and (v) to be voted on by the Independent Shareholders) by the required voting majorities at the duly convened SGM;

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- f) the granting of the Whitewash Waiver by the Executive;
- g) the granting of the consent to the Special Deal by the Executive;
- h) the granting of the Listing Committee of the listing of, and permission to deal in the New Shares, the Offer Shares, the Subscription Shares and the Creditors Shares having been obtained pursuant to the Restructuring Agreement, the Scheme and the other relevant agreement subject only to (i) the formal issue and allotment of such Offer Shares, Subscription Shares and Creditors Shares; (ii) such other administrative conditions as are customarily stipulated by the Stock Exchange for resumption of trading or listing of the shares of the Company, and such approval not having been revoked; and the approval of the resumption of the trading of the shares of the Company from the Stock Exchange and such approval not having been revoked;
- i) the provision of a copy, certified by a director or company secretary of the Company as being a true and complete copy, of the completed and signed formal application for listing in the form as set out in Form C1 in Appendix 5 to the Listing Rules submitted to the Stock Exchange seeking approval, inter alia, for the listing and permission to deal in the New Shares, the Offer Shares, the Subscription Shares and the Creditors Shares;
- j) provision of a copy of the order granted by the Hong Kong Court to unconditionally or conditionally discharge the Provisional Liquidators in respect of the provisional liquidation of the Company (subject only to those conditions to the reasonable satisfaction of the Investor, such as completion of the Proposed Restructuring of the Company);
- k) the completion of all Excluded Companies, subject to the requirements of the Listing Rules, being transferred out of the Group to the Scheme Administrators or their nominee pursuant to the Scheme and
- l) the compliance to all the conditions attached to the approval or decision (if any) made by the Stock Exchange having approved, or decided to allow the Company to proceed with, the Resumption Proposal being fulfilled (other than those conditions relating to or in connection with Completion) or being waived by the Stock Exchange.

As provided under the Restructuring Agreement, the Investor shall have the right to waive the Condition Precedent (g) in relation to the Special Deal. If the resolution in relation to the Special Deal is not approved by the Independent Shareholders at the SGM and/or the Executive does not give its consent to the Special Deal, the indebtedness owed to Mr. Yeung will not be able to be transferred and settled under the Scheme, and the Company will continue to carry a large sum of indebtedness, which is not in the interests of the Company, the Shareholders and the Investor. In such circumstances, the Investor has indicated to the Provisional Liquidators that it shall not waive such Condition Precedent. As such, Completion will not take place and the Proposed Restructuring will not proceed.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Subject to the production of satisfactory evidence that the Investor has sufficient financial resources to make a general offer for all the Shares and New Shares (as the case may be) pursuant to the Takeovers Code, the Investor shall have the right to waive the Conditions Precedent in relation to the obtaining of the Whitewash Waiver (i.e. Condition Precedent (f)) or the passing of the related resolution for Whitewash Waiver (i.e. Condition Precedent (e) (iv)) by serving a written confirmation of such waiver to all other parties to the Restructuring Agreement.

Completion

If all the Conditions Precedent are fulfilled (or validly waived), Completion shall take place during normal office hours within five business days following the day on which the last of the Conditions Precedent is fulfilled (or, if applicable, waived) (or such other date as may be agreed by the parties to the Restructuring Agreement in writing in order to coincide with the day of the Resumption, but such date shall be in any event no later than the Long Stop Date unless otherwise all parties to the Restructuring Agreement agree in writing) at the office of the Company in Hong Kong (or such other place as may be agreed by the parties to the Restructuring Agreement in writing).

BOARD LOT SIZE UPON RESUMPTION AND ARRANGEMENT ON ODD LOT TRADING

Upon the Capital Restructuring becoming effective, the theoretical trading amount of each board lot shall become approximately HK\$35.14 each based on the Offer Price and Subscription Price being HK\$0.5622 per share. Accordingly, the Company proposes that the board lot size for trading in the shares of the Company shall become 5,000 New Shares per lot upon the Resumption.

Upon the Resumption, in order to facilitate the trading of odd lots of the New Shares arising from the Capital Restructuring and the Open Offer, the Company will appoint an agent to arrange for matching services regarding the sale and purchase of odd lots of New Shares, on a best effort basis, to those Shareholders who wish to top-up to a full board lot or sell their shareholdings of odd lots of the New Shares. Holders of the New Shares in odd lots should note that the matching of the sale and purchase of odd lots of the New Shares is on a best effort basis and successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed. Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

Further announcement in respect of the details of the agent and the matching services will be made by the Company in due course.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The changes in the shareholding structure of the Company arising from the Capital Restructuring, the Open Offer, the Share Subscription and the issue of the Creditors Shares, are set out in the following tables for illustrative purposes only.

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Scenario A:

Assuming none of the existing Shareholders take up their respective entitlements to the Offer Shares under the Open Offer, and the Investor takes up the Offer Shares in full

	Shareholding structure as at the Latest Practicable Date		Immediately after the Capital Restructuring		Immediately after the Capital Restructuring and the Open Offer (assuming no Qualifying Shareholder has taken up his entitlement under the Open Offer)		Immediately after the Capital Restructuring, the Open Offer and the Share Subscription (assuming no Qualifying Shareholder has taken up his entitlement under the Open Offer)		Immediately after the Capital Restructuring, the Open Offer, the Share Subscription and the issue of the Creditors Shares (assuming no Qualifying Shareholder has taken up his entitlement under the Open Offer)		Immediately after the Capital Restructuring, the Open Offer, the Share Subscription, the issue of the Creditors Shares and the Placing Down by the Investor (assuming no Qualifying Shareholder has taken up his entitlement under the Open Offer)	
			No. of New Shares		No. of New Shares		No. of New Shares		No. of New Shares		No. of New Shares	
	No. of Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%
Mr. Huang, the Investor and parties acting in concert with any of them (Note 1)	-	-	-	-	103,767,552	87.50%	370,598,402	96.15%	370,598,402	92.60%	300,184,705	75.00%
The Creditors	-	-	-	-	-	-	-	-	14,823,936	3.70%	14,823,936	3.70%
Regal Splendid (Note 2)	416,665,000	35.13%	5,208,312	35.13%	5,208,312	4.39%	5,208,312	1.35%	5,208,312	1.30%	5,208,312	1.30%
Existing public Shareholders	769,249,889	64.87%	9,615,624	64.87%	9,615,624	8.11%	9,615,624	2.50%	9,615,624	2.40%	9,615,624	2.40%
Places for the Public Float (Note 1)	-	-	-	-	-	-	-	-	-	-	70,413,697	17.60%
Total	1,185,914,889	100.00%	14,823,936	100.00%	118,591,488	100.00%	385,422,338	100.00%	400,246,274	100.00%	400,246,274	100.00%

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Scenario B:

Assuming none of the existing Shareholders take up their respective entitlements to the Offer Shares under the Open Offer, and the Underwriter (other than the Investor or parties acting in concert with it) has placed the Offer Shares in full to placees which are independent third parties not connected with the directors, chief executives, substantial shareholders of the Company or its subsidiaries or their respective associates and are not acting in concert with the Company or any of its connected persons or the Investor, its beneficial owners or any of their respective concert parties.)

	Shareholding structure as at the Latest Practicable Date		Immediately after the Capital Restructuring		Immediately after the Capital Restructuring and the Open Offer (assuming no Qualifying Shareholder has taken up his entitlement under the Open Offer)		Immediately after the Capital Restructuring, the Open Offer and the Share Subscription (assuming no Qualifying Shareholder has taken up his entitlement under the Open Offer)		Immediately after the Capital Restructuring, the Open Offer, the Share Subscription and the issue of the Creditors Shares (assuming no Qualifying Shareholder has taken up his entitlement under the Open Offer)	
	No. of Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%
Mr. Huang, the Investor and parties acting in concert with any of them	-	-	-	-	-	-	266,830,850	69.23%	266,830,850	66.67%
Placees for the Offer Shares	-	-	-	-	103,767,552	87.50%	103,767,552	26.92%	103,767,552	25.93%
The Creditors	-	-	-	-	-	-	-	-	14,823,936	3.70%
Regal Splendid (Note 2)	416,665,000	35.13%	5,208,312	35.13%	5,208,312	4.39%	5,208,312	1.35%	5,208,312	1.30%
Existing public Shareholders	769,249,889	64.87%	9,615,624	64.87%	9,615,624	8.11%	9,615,624	2.50%	9,615,624	2.40%
Total	1,185,914,889	100.00%	14,823,936	100.00%	118,591,488	100.00%	385,422,338	100.00%	400,246,274	100.00%

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Scenario C:

Assuming all the existing Shareholders take up their respective entitlements to the Offer Shares under the Open Offer

	Shareholding structure as at the Latest Practicable Date		Immediately after the Capital Restructuring		Immediately after the Capital Restructuring and the Open Offer (assuming all Qualifying Shareholders have taken up his entitlement under the Open Offer)		Immediately after the Capital Restructuring, the Open Offer and the Share Subscription (assuming all Qualifying Shareholders have taken up his entitlement under the Open Offer)		Immediately after the Capital Restructuring, the Open Offer, the Share Subscription and the issue of the Creditors Shares (assuming all Qualifying Shareholders have taken up his entitlement under the Open Offer)	
									No. of New Shares	
	No. of Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%	No. of New Shares	%
Mr. Huang, the Investor and parties acting in concert with any of them	-	-	-	-	-	-	266,830,850	69.23%	266,830,850	66.67%
The Creditors	-	-	-	-	-	-	-	-	14,823,936	3.70%
Regal Splendid (Note 2)	416,665,000	35.13%	5,208,312	35.13%	41,666,496	35.13%	41,666,496	10.81%	41,666,496	10.41%
Existing public Shareholders	769,249,889	64.87%	9,615,624	64.87%	76,924,992	64.87%	76,924,992	19.96%	76,924,992	19.22%
Total	<u>1,185,914,889</u>	<u>100.00%</u>	<u>14,823,936</u>	<u>100.00%</u>	<u>118,591,488</u>	<u>100.00%</u>	<u>385,422,338</u>	<u>100.00%</u>	<u>400,246,274</u>	<u>100.00%</u>

Notes:

- (1) In the event that the Investor pursuant to the Sub-underwriting Letter as a sub-underwriter subscribes for up to 103,767,552 Offer Shares, i.e. the maximum number of the Undertaken Shares, the Investor will take appropriate steps to maintain the Public Float in the event that its shareholding interest in the Company exceeds 75% of the issued share capital of the Company upon completion of the Open Offer and the Share Subscription.
- (2) Regal Splendid is a company incorporated in the BVI with limited liability, which was legally and beneficially owned as to 100% by Mr. Yeung. On 20 January 2010, Sun Hung Kai Structured Finance Limited obtained a charging order against Regal Splendid, which had pledged its holding of the aforesaid 416,665,000 Shares (the “Charged Shares”) and defaulted the loan owed to Sun Hung Kai Structured Finance Limited and Sun Hung Kai Investment Services Limited. Pursuant to the order of Hong Kong Court dated 16 March 2012, provisional liquidators were appointed to take control of Regal Splendid and they are empowered to, among others, exercise Regal Splendid’s rights in the Charged Shares in the best interests of creditors of the Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder’s meeting of the Company. The winding up order was issued on 30 May 2012 by the Hong Kong Court.

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PLACING DOWN FOR PUBLIC FLOAT

After the issue of the Offer Shares, the Subscription Shares and the Creditors Shares, assuming that no Qualifying Shareholder has taken up his/her entitlement under the Open Offer and the Investor pursuant to the Sub-underwriting Letter has fully subscribed for all the Offer Shares, the public Shareholders will hold approximately 7.41% of the issued share capital of the Company as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares. In such event, the Investor will take appropriate steps, which may include arrangement with a placing agent, to place down a portion of the New Shares for the Investor to other investors who are independent third parties in order to maintain the Public Float.

FINANCIAL EFFECT OF THE PROPOSED RESTRUCTURING

Set out below is the summary of consolidated financial positions of the Group as at 31 December 2011, 31 December 2010, 31 December 2009 and 31 December 2008:

Consolidated financial positions

	As at 31 December			
	2011	2010	2009	2008
	(audited)	(audited)	(audited)	(audited)
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	29,421	5,444	259	267
Current assets	78,545	57,524	8,949	1,138
Current liabilities	(466,425)	(437,179)	(392,671)	(370,589)
Non-current liabilities	–	–	–	–
Net current liabilities	(387,880)	(379,655)	(383,722)	(369,451)
Net liabilities	(358,459)	(374,211)	(383,463)	(369,184)

As at 31 December 2011, the Group had total liabilities of approximately RMB466.43 million, of which approximately (i) RMB101.65 million was related to a claim arising from derivative financial instrument; and (ii) RMB176.28 million was the Group's bank and other borrowings. As at 31 December 2011, the total assets of the Group of approximately RMB107.97 million mainly comprised (i) bank and cash balances of approximately RMB29.59 million; (ii) trade receivables of approximately RMB39.07 million; and (iii) prepayments, deposits and other receivables of approximately RMB30.48 million.

Upon completion of the Group Reorganisation, the assets and liabilities of the Excluded Subsidiaries will no longer be consolidated into the consolidated financial statements of the Restructured Group. In addition, upon the Scheme becoming effective, all the claims against, and liabilities of, the Company (excluding the normal operating liabilities incurred during the ordinary course of business operations of the Group) will be discharged and compromised in full.

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As illustrated in the unaudited pro forma financial information of the Group as at 31 December 2011 as set out in Appendix III to this circular, the total assets and liabilities would have become approximately RMB154.2 million and RMB34.3 million, respectively, and the net assets would have become approximately RMB119.9 million, as if Completion had occurred on 31 December 2011. The total liabilities of the Group would then comprise trade and bills payables incurred during the course of ordinary business of the Group, accruals, other payables and deposits received, other borrowings and current tax liabilities.

For the year ended 31 December 2011, audited net profit after tax attributable to the Shareholders was approximately RMB2.27 million. The operating results of the Excluded Companies will no longer be consolidated into the consolidated financial statements of the Restructured Group after completion of the Group Reorganisation. It is expected that the Group will record an accounting loss of approximately RMB213,000 for the year ending 31 December 2012 from the deconsolidation of the Excluded Companies as part of the Group Reorganisation.

REASONS AND BENEFITS FOR THE ENTERING INTO THE RESTRUCTURING AGREEMENT

Trading in the Shares on the Stock Exchange has been suspended since 15 December 2008. On 6 October 2010, Asian Capital on behalf of the Company submitted the Resumption Proposal to the Stock Exchange with a view to seeking the Stock Exchange's approval for the resumption of trading in the shares of the Company. After considering the Resumption Proposal submitted by Asian Capital on behalf of the Company, the Listing Appeals Committee issued the Decision Letter to the Company agreeing in principle that trading in the Shares on the Stock Exchange will be resumed subject to the fulfilment of the Resumption Conditions.

Given the financial situation of the Group and the willingness of the Investor to finance the Group, the Provisional Liquidators and the Directors consider that the entering into the Restructuring Agreement will help to facilitate compliance of the Resumption Conditions, and it is in the interests of the Company and the Shareholders as a whole to issue the Creditors Shares in order to discharge all liabilities of and claims against the Company under the Scheme, and at the same time to raise funds by means of the issue of the Offer Shares and the Subscription Shares. The Open Offer and the Share Subscription will introduce new investors to the Company, strengthen the financial position of the Group and relieve the indebtedness level of the Company. It will also provide the Group with new funds to enhance its existing business operations and flexibility to make investments in new acquisitions or business ventures when suitable opportunities arise in the future.

Having considered the factors above, the Directors and the Provisional Liquidators consider that the terms of the Restructuring Agreement are on normal commercial terms and the entering into the Restructuring Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

USE OF PROCEEDS FROM THE OPEN OFFER AND THE SHARE SUBSCRIPTION

The gross proceeds from the Open Offer and the Share Subscription of approximately HK\$208 million (including approximately HK\$58 million and approximately HK\$150 million to be raised from the Open Offer and the Share Subscription respectively). As pursuant to the Restructuring Agreement, the Pre-Completion Payments will be set off against the monies payable for the Share Subscription by the Investor upon Completion, it is estimated that the net proceeds from the Open Offer and the Share Subscription will be approximately HK\$120 million after deducting the Pre-Completion Payments (assuming the amount of the Pre-Completion Payments will be approximately HK\$88 million) will be applied as follows:

- (i) approximately HK\$62 million is to settle debts owed to the Creditors (including Creditors with preferential claims) under the Scheme pursuant to the Restructuring Agreement;
- (ii) approximately HK\$1.8 million for the payments of commission for the Open Offer; and
- (iii) approximately HK\$56 million for the general working capital of the Restructuring Group, among which approximately HK\$15 million will be used as the working capital for the products distribution business through the supermarket channel in the PRC.

BUSINESS OPERATION OF THE GROUP

Appointment of the Provisional Liquidators and the Exclusivity Agreement

The Company was listed on the Stock Exchange in 2002, and was principally engaged in the processing and trading a broad array of agricultural and marine food products, which can be broadly divided into three categories: frozen marine foods, frozen functional foods and refrigerated processed meat. The business operations of the Group were mainly conducted through the PRC Subsidiaries, namely Longyu, Jiajing and Dingwei. The Group, through Longyu, owned the premises, plant and equipment and operated its food processing activities at its food processing plant in Fuqing, Fujian Province, the PRC.

On 5 November 2008, the Company announced that Deutsche Bank, as a result of the early termination of the Swap, claimed against the Company a total amount of US\$15,927,075 plus accrued interest. At the request of the Company, the Shares were suspended from trading on the Stock Exchange on 15 December 2008, pending the release of an announcement in relation to price sensitive information of the Company.

As repeated attempts to contact Mr. Yeung (a former executive Director and the former chairman of the Company and a controlling Shareholder) and Mr. Yang Le (a former executive Director and the son of Mr. Yeung) were unsuccessful and the Board had difficulties in exercising the authority and control of the Company over the PRC Subsidiaries, the Board decided to place the Company in provisional liquidation.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Subsequently, Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai, both of Ernst & Young Transactions Limited, were appointed by the Hong Kong Court as the Provisional Liquidators to take control and preserve the assets of the Group.

Since their appointment, the Provisional Liquidators have been investigating into the affairs of the Group and taken all necessary actions including, among others, taking the PRC Legal Actions to seek to regain control of the PRC Subsidiaries and to preserve the assets of the Group. However, the PRC Legal Actions met with immense resistance from Mr. Yeung and Mr. Yang Le.

In view of the uncertainties on whether any of the PRC Subsidiaries could be recovered, on 30 July 2009, the Company, the Provisional Liquidators, the Investor and Mr. Huang entered into the Exclusivity Agreement with the aim to restructuring of the Company. Following entering into the Exclusivity Agreement, Supreme Wit and the Investor entered into the Working Capital Facility Agreement, pursuant to which up to HK\$70 million of the Working Capital Facility was provided by the Investor to enable the Group to resume its business operations.

Restoration of the Group's business operations

The audited financial results for the years ended 31 December 2008, 2009, 2010 and 2011 of the Group are summarised below:

Consolidated Income Statement

	For the financial year ended 31 December			
	2011	2010	2009	2008
	(audited)	(audited)	(audited)	(audited)
		(restated)		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	730,660	144,006	2,542	478,707
Cost of sales	(710,218)	(136,281)	(2,505)	(271,919)
Gross profit	20,422	7,725	37	206,788
Net profit/(loss)	<u>2,273</u>	<u>(4,277)</u>	<u>(14,161)</u>	<u>(1,441,785)</u>

Although the control of the Group was assumed by the Provisional Liquidators in early 2009, books and records of the Group were hardly recoverable making it impossible for the Group to consolidate the results of the PRC Subsidiaries, thus the Company deconsolidated the financial results, assets and liabilities and cash flows of the PRC Subsidiaries from the consolidated financial statements of the Group since 1 July 2008. In addition, due to the loss of control of the PRC Subsidiaries, the business operations and the track records of the Group came to a disruptive halt. The Group, therefore, recorded no turnover during the second half of 2008 and the first half of 2009.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

To facilitate the restoration of business operations and implementation of the business plan of the Group in stages, the Company applied and obtained sanction from the Hong Kong Court for the establishment of four new subsidiaries, namely, Supreme Wit, Trendy Leader, Pacific Prosper and Highest Rich in September 2009.

As shown in table above, with financial support made available by the Investor, the Group via Trendy Leader and Highest Rich resurrected some food trading businesses in October 2009, and recorded a turnover of approximately RMB2.5 million (equivalent to approximately HK\$2.9 million) and losses attributable to the equity holders of the Company were approximately RMB14.2 million (equivalent to approximately HK\$16.1 million). Based on the audited consolidated financial statements for the year ended 31 December 2009, the losses attributable to the equity holders of the Company of approximately RMB14.2 million was mainly attributable to administrative expenses and finance costs. The trading businesses via Trendy Leader and Highest Rich, which represent the phase 1 of the restoration of the Group's business operations, have provided a useful platform for re-establishing and developing the Group's business connections in the food trading and processing businesses.

As set out in the Company's announcement and circular dated 10 May 2010 and 25 August 2010 respectively, on 22 April 2010, the Group, via one of the New Subsidiaries, Pacific Prosper, entered into the sale and purchase agreement to acquire the entire issued share capital of Orient Legend, which constituted a very substantial acquisition for the Company under the Listing Rules. Completion of the acquisition of Orient Legend took place on 4 October 2010.

Orient Legend was incorporated in Hong Kong in 1998 and is principally engaged in the trading of frozen food and food processing. It trades frozen food products mainly including frozen meat, poultry and seafood. Orient Legend has developed and maintained long-term relationship with wholesalers and distributors, which are mainly located in Hong Kong and the PRC. Orient Legend purchases its products directly from suppliers, which are mostly wholesalers and slaughterhouses in Europe and North America. The acquisition of Orient Legend represents the phase 2 of the restoration of business operations, and through the acquisition of Orient Legend integrating with Trendy Leader and Highest Rich, the Group has re-established a solid and sustainable trading platform which enables the Group to generate steady revenue and profit.

In order to enhance value-added services and improve the profitability of the Group, in April 2010, Trendy Leader, through the Processing Agreement, commenced working relationship with JM Kings Food, which owns a sizeable processing plant located in Jiangmen, Guangdong Province, the PRC, to out-source their food processing to JM Kings Food. As set out in the Company's announcement and circular dated 5 October 2010 and 17 December 2010 respectively, on 5 October 2010, Pacific Prosper, a wholly-owned subsidiary of the Company, entered into the Sincere Gold Agreement to intensify and strengthen the value-added services of the Group through the Jiangmen processing plant owned by JM Kings Food, by taking advantage of the established trading volume already achieved by Orient Legend, Trendy Leader and Highest Rich.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

As set out in the Company's circular dated 17 December 2010, pursuant to the Sincere Gold Agreement, in consideration of the rental fee in the amount of HK\$15,000,000, which was fully paid upon completion of the Sincere Gold Agreement on 18 February 2011, the owner of the Sincere Gold Companies, being an independent third party, agreed to procure the Sincere Gold Companies to grant Pacific Prosper the Sincere Gold Rights for the term of five years.

The transactions contemplated under the Sincere Gold Agreement were approved by the Shareholders at the special general meeting and that the completion of the Sincere Gold Agreement took place on 18 February 2011. The Company considered that after completion of the Sincere Gold Agreement, with the in-house processing capabilities and the synergy effects generated from the business integration, the Group shall be in a better position to capture more market opportunities with higher profit margin.

The Company recorded a turnover of approximately RMB730.7 million (equivalent to approximately HK\$881.3 million) with gross profit of approximately RMB20.4 million (equivalent to approximately HK\$24.7 million) for the year ended 31 December 2011. Due to the high administrative costs, which mainly include the restructuring costs, and finance costs, which are accrued interests based on pre-existing bank loans, the Company was only able to record a profit of approximately RMB2.3 million (equivalent to approximately HK\$2.7 million) for the same period. As set out in the Appendix V to this circular, the Company forecasts the consolidated profit attributable to the owners of the Company (excluding all effects of the Resumption related costs, income and gain) for the year ending 31 December 2012 will be no less than HK\$19.2 million which is based on the bases and assumptions set out in Appendix V to this circular, including among others, the assumption that the sales of the Restructured Group can increase approximately 18% for the year ending 31 December 2012 compared with the year ended 31 December 2011. Asian Capital as the financial adviser to the Company and ANDA CPA Limited as the reporting accountant of the Company consider that such assumption is made by the Directors, the Provisional Liquidators and the director of the Investor with due care and consideration and is realistic.

Business model and value-added services of the Group

Pursuant to the Sincere Gold Agreement, Pacific Prosper has the Sincere Gold Rights, i.e. the full rights to take, complete and deliver all the processing orders for and on behalf of the Sincere Gold Companies or under the name of any Sincere Gold Companies and to use, utilize and control the Sincere Gold Assets and Sincere Gold Properties for the purpose of taking, completing and delivering of all the orders placed by Pacific Prosper pursuant to the terms under the Sincere Gold Agreement during the term of five years.

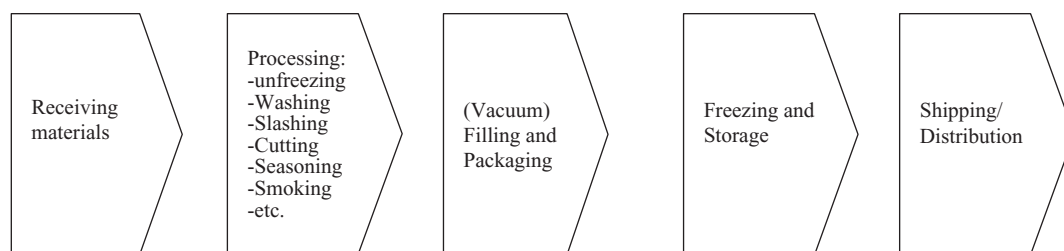
Pacific Prosper shall be responsible for settling and discharging all the debts and liabilities (including but not limited to salaries of employees of the Sincere Gold Companies and sales and marketing expenses) resulting from the operations from each of the Sincere Gold Companies during the term of five years. On the other hand, during the term of five years, Pacific Prosper shall be entitled to all the profits generated from the orders from each of the Sincere Gold Companies.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

The Sincere Gold Rights shall be for a period of five years from 18 February 2011, i.e. the date of completion of the Sincere Gold Agreement. Pursuant to the Sincere Gold Agreement, Pacific Prosper shall have the right to further extend the term for another 5 years upon expiry of the term of five years.

JM Kings Food as one of the Sincere Gold Companies owns a processing plant, which is located in Jiangmen, Guangdong Province, the PRC. It is principally engaged in the provision of processing services for various marine/fresh water fish and meat food products and storage services for frozen food. It operates a cold storage facility with a maximum storage capacity of not less than 2,000 metric tons for storage of various types of frozen food products at different temperatures. In addition to the full time employees, the plant will employ part-time workers, if necessary, so that the manpower maintained by the plant can be sufficient for the processing works based on the work orders. With the processing capacity under the arrangement of the Sincere Gold Agreement, the Group at present can process or provide processing services for various marine/fresh water fish and meat products for frozen food, such as fish fillet, whole round fish, headless fish, headless shrimps, peeled shrimps, sausage, fish balls, fish paste, etc.

As illustrated in chart below, depending on the specification and requirements of customers, the fish and/or meat processing usually could entail various procedures such as unfreezing, washing, slashing, cutting, seasoning, smoking, filling, freezing, packaging, storage and shipping.

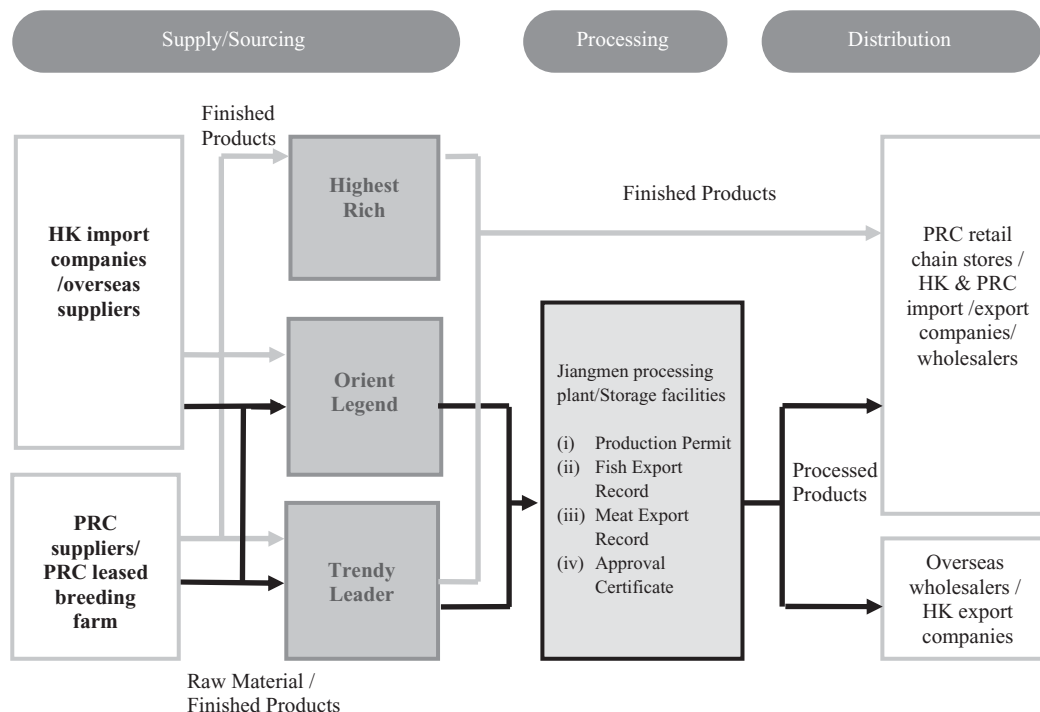


The JM Kings Food obtained: (i) the National Industrial Production Permit (全國工業產品生產許可證) (the “**Production Permit**”), which permit JM Kings Food to engage in the production of frozen products in the PRC. The Production Permit was issued by Guangdong Provincial Quality and Technology Authority (廣東品質技術監管局) on 24 June 2010 and shall be renewed in every three years; (ii) the Record for Food Manufacturing Export Enterprises (出口食品生產企業備案證明) for fish products (the “**Fish Export Record**”), which allows the fish products produced by JM Kings Food to export to the overseas countries. The Fish Export Record was issued by Entry and Exit Inspection and Quarantine Association of Guangdong Province (廣東出入境檢驗檢疫局) on 7 July 2009 and shall be renewed in every three years. At present, JM Kings Food is in the process of applying for the renewal of Fish Export Record; (iii) the Record for Food Manufacturing Export Enterprises for meat products (the “**Meat Export Record**”), which allows the meat products produced by JM Kings Food to export to the overseas countries. The Meat Export Record was issued by Entry and Exit Inspection and Quarantine Association of Guangdong Province on 20 July 2011 and shall be renewed in every three years; and (iv) a certificate of approval (the “**Approval Certificate**”) issued by Guangdong Government (廣東省人民政府), which allows

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JM Kings Food as a wholly-foreign-owned enterprise incorporated in the PRC, to conduct meat and fish food processing, wholesale, retail and import and export businesses. The Approval Certificate was issued on 9 January 2012 and shall be renewed in every ten years.

Through the implementation of the three-phase business resurrection plan, the Group at present has built an integrated business platform. Set out below is a simplified business model/flow chart of the Group:



As illustrated in the charts above, the processing facilities, the storage facilities and all the licences/permits possessed by Jiangmen processing plant have enabled the Group to have an integrated business structure, i.e., based on customers' orders and requirements, procure/source its raw materials from different suppliers including government approved suppliers and licensed breeding farms in the PRC and overseas, then processed by Jiangmen processing plant for directly shipping/exporting to the overseas countries or the PRC.

Normally, customers place orders to the Group with details of product specification, such as product description, processing method, quantity, packaging requirement, shipping details, etc. After discussion with the management personnel of the Jiangmen processing plant regarding the requirement from customer orders, purchase order will be placed to suppliers for sourcing of raw materials to satisfy the processing requirement from customers.

For import of raw materials, the suppliers will arrange their shipment to the arrival ports specified by the Group, and the Group will make corresponding import arrangement, in particular, the personnel in Jiangmen processing plant will complete the necessary procedure for the import delivery and custom clearance. Before the raw materials were further processed by Jiangmen processing plant, they are normally stored in the in-house cold

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warehouse facilities. After completion of the food processing, the finished products will normally be stored in the in-house cold warehouse waiting for the shipment arrangement to customers.

For export of products to customers, the personnel in Jiangmen processing plant, under the instruction of the management personnel of the Group, will arrange the necessary shipment procedure, including arrangement of export documents, bill of lading, certificate of origin, health certificates, etc., and to direct the products to the ports as specified by the customers.

The integrated business model has enabled the Group to have a balanced market/geographic coverage through Orient Legend mainly targeting the PRC customers and Trendy Leader and Highest Rich targeting the overseas customers. This will not only capture PRC market demand for frozen food products, but also diversify market risk of the Group in the long run. The cold storage facility owned by JM Kings Food also enables the Group to have more flexibility and bargaining power to enjoy a higher profit margin as food products can be sourced and stored until they can be sold at more favorable prices due to the breeding seasonality and market demand fluctuation.

Products of the Group

At present, products provided by the Group mainly include three categories: (i) frozen marine foods (including salted jelly fish, squid products, basa fillet, shrimp, dace fish, tilapia, golden promfret, black promfret, shell product, cuttlefish, yellow croaker, pollock fillet, milk fish, golden thread fish, big eye fish, scallops, crocodile products, seabass, frozen cooked whelk, king crab, etc); (ii) frozen poultry and meat (including pork stomachs, pork tongues, pork snouts, pork hint feet, pork flat bones, pork front feet, pork head etc.); and (iii) functional foods (mainly including collagen product, baby foods and baked beans, etc.).

For the year ended 31 December 2010, frozen marine foods, frozen poultry and meat and functional foods accounted for approximately 31%, 68% and 1% respectively of the total sales of the Group. For the year ended 31 December 2011, frozen marine foods, frozen poultry and meat and functional foods accounted for approximately 13%, 87% and 0% respectively of the Group's total sales.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Customers of the Group

The Group has developed and maintained business relationships with not less than 80 customers located in Hong Kong, the PRC, Canada and other South-East Asian countries, which are mainly wholesalers and distributors and are independent third parties. For the years ended 31 December 2011 the top five customers of the Group accounted for approximately 71.65% of the Group's sales. The information regarding the Group's top five customers for the year ended 31 December 2011 is set out below:

Customer	Business nature	Location of customer	% of revenue
A	Wholesaler	PRC	32.2%
B	Wholesaler	PRC	16.6%
C	Wholesaler	PRC	12.0%
D	Wholesaler	PRC	5.8%
E	Wholesaler	PRC	5.0%

In July 2010 and November 2010, the Group entered a letter of intent and a cooperation agreement respectively with two of its customers, who are independent third parties. Pursuant to the letter of the intent and the cooperation agreement, the two customers would purchase processed food products from the Group. A sound business relationship has been established with these two customers and they continue to place orders to the Group despite the fact that the letter of intent and the cooperation agreement was expired in 2011. The management considers that renewal of the letter of intent or the cooperation agreement is not necessary based on the well-established business relationship with these customers. In addition, the Group also entered into cooperation agreements with several PRC food distributors in June 2011. After consideration, the Group selected to target its retail distribution through a chained-supermarket with 32 stores in Beijing. Accordingly, the Group began its food distribution through this selected chained-supermarket stores in Beijing in the second half of 2011.

Suppliers of the Group

The Group has maintained relationship with not less than 100 suppliers, which are mainly wholesalers and manufacturers located in Europe, United States, Canada, PRC and other Southeast Asian countries. For the year ended 31 December 2011, the Group's top five suppliers accounted for approximately 37.87% of the Group's total cost of goods sold. The information regarding the Group's top five suppliers for the year ended 31 December 2011 is set out below:

Supplier	Business nature	Location of supplier	% of purchase
V	Wholesaler	Denmark	15.5%
W	Manufacturer	United States of America	8.1%
X	Wholesaler	France	4.9%
Y	Wholesaler	Denmark	4.7%
Z	Wholesaler	Hungary	4.4%

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Credit control and inventory control of the Group

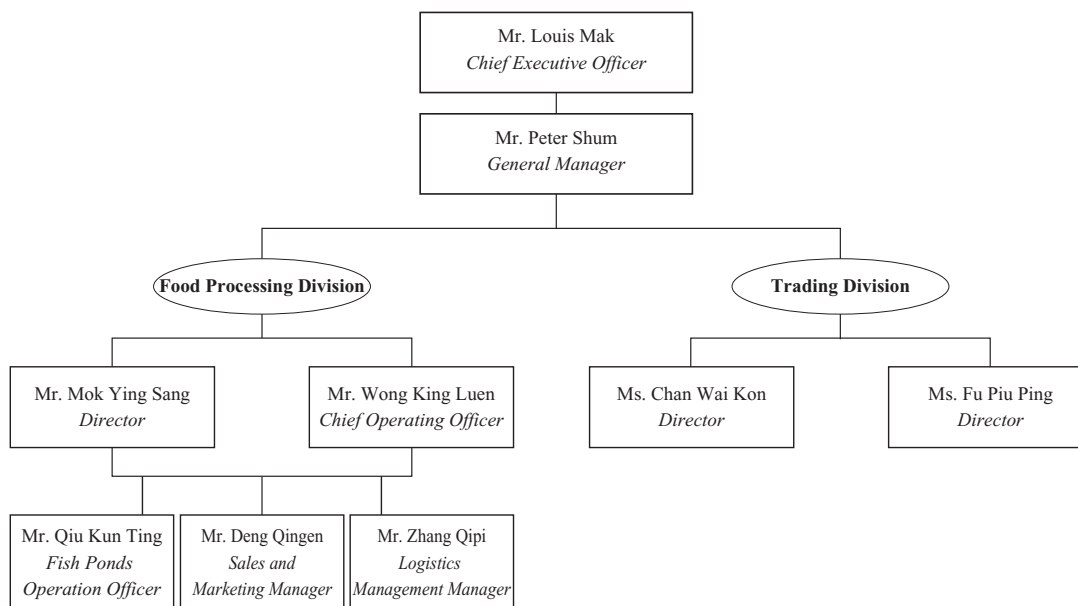
The Group's trading terms with customers mainly comprise credit and cash on delivery. The credit terms generally range from 30 to 90 days. For new customers, payment in advances is normally required. The Group maintains strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

The Group maintains inventory level with reference to the level of sales made and the number of placed orders. The Group is exposed to minimal inventory risks.

Senior management of the Group

As at the Latest Practicable Date, the Group has a total of 15 employees (excluding the employees engaged by the Jiangmen processing plant under the Sincere Gold Agreement), including 3 strategic and business development personnel, 2 accounting staff, 4 clerk and general administration staff, 2 sale and marketing personnel, 3 shipping and logistics management staff and 1 fish pond management staff.

An organization chart reflecting the senior management is depicted as follows:



Set out below is the biography of the senior management of the Group.

Mr. Mak Tat Ho, Louis (“Mr. Mak”), aged 60, is the Chief Executive Officer of the Group and is responsible for the Group's overall operations. Mr. Mak has over 13 years of experience in food sourcing, processing, trading and distribution businesses. Mr. Mak graduated from the University of Hong Kong in 1975 with Bachelor Degree of Science.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Mr. Wong King Luen, Colin (“Mr. Wong”), aged 47, is the Chief Operating Officer of the Group and is mainly responsible for the Group’s processing business. Mr. Wong has 10 years of experience relating to fish farming, food processing, distribution, exporting and importing businesses.

Mr. Shum Chin Tong Peter (“Mr. Shum”), aged 69, is the general manager of Supreme Wit and is responsible for the overall operations of the Group. He had previously worked in Jardine Marketing Service Company under the division of customer products in which he has accumulated years of experience in promotion, sales, marketing and purchase in food industries.

Mr. Mok Ying Sang (“Mr. Mok”), aged 58, is the director of Supreme Wit, Trendy Leader, Highest Rich and Pacific Prosper responsible for their overall operation and business development. Mr. Mok has over 13 years of experience in the business of property development.

Ms. Chan Wai Kon (“Ms. Chan”), aged 45, is a director of Orient Legend. She joined Orient Legend in 1998 and is responsible for market and product development of Orient Legend. Ms. Chan has years of experience in trading of frozen foods and food processing industry.

Ms. Fu Piu Ping Serina (“Ms. Fu”), aged 44, is a director of Orient Legend. She joined Orient Legend in 2003 and is responsible for logistic and product supplies administration. Ms. Fu has years of experience in trading of frozen foods and food processing industry.

Mr. Zhang Qipi (“Mr. Zhang”), aged 51, is an administrative manager of Trendy Leader. Mr. Zhang has years of experience in sales and marketing. Mr. Zhang is responsible for the logistic management of the food processing business of the Supreme Wit, Trendy Leader, Highest Rich and Pacific Prosper.

Mr. Deng Qingen (“Mr. Deng”), aged 55, is a development manager of Trendy Leader. Mr. Deng has extensive experience in the sales, marketing and business development in various industries including tourism, vehicles and insurance. Mr. Deng is responsible for the strategic planning and business development of the food processing business of the Supreme Wit, Trendy Leader, Highest Rich and Pacific Prosper.

Mr. Qiu Kun Ting (“Mr. Qiu”), aged 36, is an operation manager of Trendy Leader. Mr. Qiu has years of experience in the management of fish ponds. He has obtained the recognised qualification and certificate on farm produce (《全國無公害農產品內檢員證書》) in the PRC and is responsible for the overall management and operational control of the fish ponds.

Competition

The business of processing and trading of food products relies greatly on food processing facilities and cold storage warehouse. The Group faces competitions with other food manufacturers in the PRC which possess the necessary licences and in-house food

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

processing facilities. The Group also competes with other food traders in the PRC, Hong Kong and other South-East Asian countries. The Group competes to a large extent on production quality, location of food processing facilities and cold storage and access to supplies and resources. Some of the Group's competitors may already have established brand recognition, larger market share and larger scale of operations, however, the Company considers that with the experienced management team, established business network and the capital raised from the proposed restructuring which would enhance the Group's financial resources, the market position of the Group can be further strengthened and the Group will be in a sound position to compete with its competitors.

Competitive strengths of the Group

The Company considers that the Group has following competitive strengths:

The products are sold to customers of PRC, Canada and other South-East Asian countries and the management of the Group recognised the worldwide strong demand of quality food products. With facilities leased under the Sincere Gold Agreement and well established relationship with the Group's customers, the Group is well-positioned to capture this opportunity to expand the Group's geographic coverage and market share.

The Group has established business relationship with its suppliers. The Group sources its supplies mainly from USA, Europe, PRC and other South-East Asian countries. This established supplier network enhances the stability of material supplies and control of the costs of the Group's sourcing to meet the different demand from the Group's international customers.

Under the Sincere Gold Agreement, the Group has the necessary licences for the import and export of the relevant frozen foods product in the PRC. In addition, the Group also has established cold storage facilities which further enhance the operations of the food processing business of the Group.

The senior management of the Group possesses knowledge and operational experience in food industry in terms of selling and marketing, food processing technology, importing and exporting. The Group believes that the industry knowledge and technical expertise of the management team will continue to be important assets and will continue to contribute to the Group's operation results.

Business plan and strategies of the Group

To cope with the competition and to ensure the Group's future success, the Group intends to provide food products aiming at increasing the Group's market coverage by upgrading products' quality, diversification of products as well as expanding the customer base. To achieve this objective, the Group plans to implement the following strategies:

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Utilisation of the facilities and licences leased under the Sincere Gold Agreement

The Group will continue to utilise the facilities and licences leased under the Sincere Gold Agreement to upgrade and diversify the products portfolio. The Group will continue to position itself as a quality food trader aiming at distributing food products of good quality, especially in term of food safety and hygiene, with product diversification to differentiate itself from other competitors. The Group also intends to develop its packing and brand to ensure that quality image will be secured for long term goodwill in the future.

Pursuant to the Sincere Gold Agreement, the term of Sincere Gold Agreement will expire in February 2016 and Pacific Prosper shall have the right to further extend the term for another five years. The Company has no present plan on whether the Group shall continue the Sincere Gold Agreement upon its expiry. After the expiry of the Sincere Gold Agreement, the Company will reappraise the arrangement under the Sincere Gold Agreement to determine whether to continue with the Sincere Gold Agreement is in the best interests of the Company and its shareholders as a whole.

Strengthening market position by expanding customer base

In addition to sell directly to the distributors in PRC, Canada and other South-East Asian countries, the Group intends to increase its market coverage through retail network in the PRC as the management of the Group recognises the strong demand of food products in PRC. To achieve this, the Group began its distribution through supermarket channel in the Beijing area in the second half of 2011. To further enhance the distribution through retail channel, the Group will continue to negotiate with major supermarkets in other areas of PRC for the distribution of products of the Group. With the increase in sales through the retail network, it is expected that the Group's products can be more recognised by the market and, ultimately, the distribution of products, both by retail and wholesale channels, can be further enhanced.

Improving sales and marketing

The Group recognises that sales and marketing strategies are important for the success of its business operations. The Group plans to participate in food exhibition in the PRC for promoting its food products and to attract more business opportunities with new customers and suppliers. Based on the demand in different geographic market, the Group intends to employ additional sales personnel. The Group will regularly visit its customers and suppliers for better communications within one another and ultimately aim at providing food products tailor-made for the customers.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

INDUSTRY OVERVIEW AND MAJOR LEGAL AND REGULATORY REQUIREMENTS

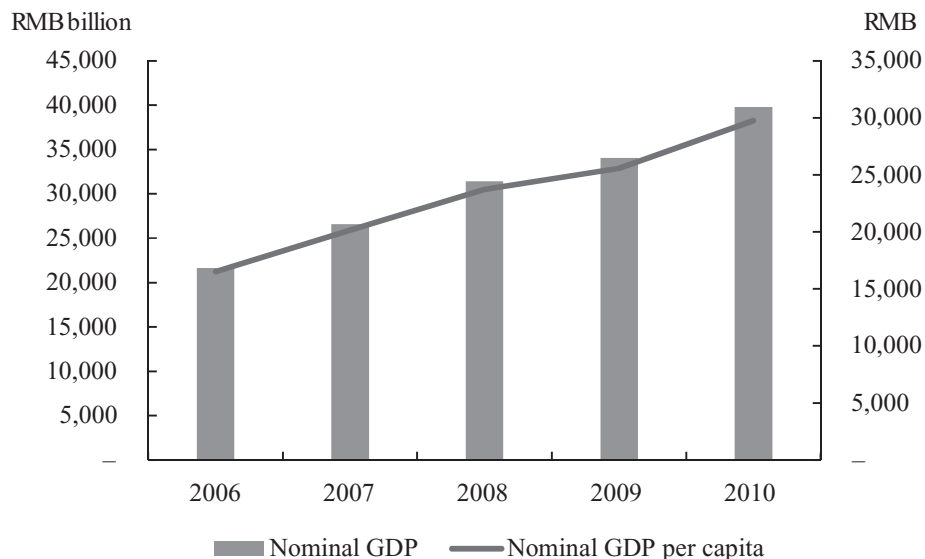
Industry overview

The PRC economy

Despite its enormous size of economy, the PRC's economy has kept expanding rapidly. The PRC has been named the second largest economy since 2010, overtaking Japan. In a speech delivered by the Premier Wen Jiabao during the annual National People's Congress Meeting in March 2012, the PRC's target economic growth was curtailed to 7.5% from the previous target of 8% which was set in 2005, indicating that the economic development in the PRC may start to slow down.

According to the National Bureau of Statistics of China, the PRC reported a nominal gross domestic products ("GDP") of approximately RMB21,631 billion in 2006, representing a cumulative annual growth rate ("CAGR") of 16.5% during the period from 2006 to 2010. The annual GDP per capita increased from approximately RMB16,500 in 2006 to approximately RMB29,972 in 2010, representing a CAGR of 16.1%. The chart below illustrates the historical nominal GDP and nominal GDP per capita in the PRC from 2006 to 2010.

Nominal GDP and nominal GDP per capita in the PRC

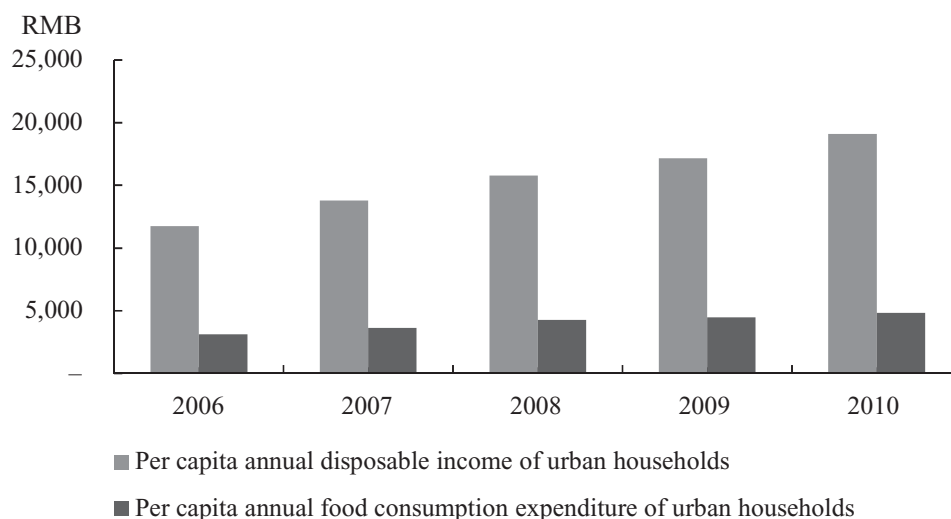


(Source: National Bureau of Statistics of China)

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

The following table sets out the urban households' annual consumption expenditure of food products and disposable income per capita in the PRC from 2006-2010:

Per capita disposable income and per capital food consumption expenditure of urban households in the PRC



(Source: National Bureau of Statistics of China)

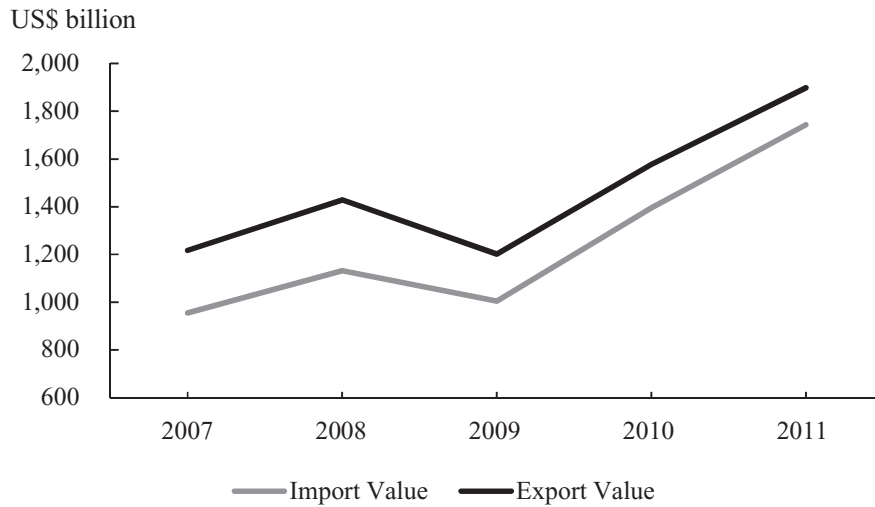
As illustrated above, as a result of continuing economic growth, the PRC households have been enjoying continued increase in disposable income, which have contributed to the growth in food consumption. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban households increased from approximately RMB11,759 in 2006 to approximately RMB19,109 in 2010, representing a CAGR of 12.9%. Over the same period, the per capita annual food consumption increased from approximately RMB3,112 in 2006 to approximately RMB4,805 in 2010, suggesting a CAGR of 11.5%.

Overview of the PRC's trading market

In the time of the financial tsunami in around 2008 and 2009 and the more recent European sovereign debt crisis from around 2010, the PRC managed to consistently post positive trade surpluses. According to statistics from the Ministry of Commerce of the PRC, in 2011, the PRC's import value totaled approximately US\$1,743.5 billion and its export value totaled approximately US\$1,898.6 billion. The PRC's import and export values in 2007 were approximately US\$955.8 billion and US\$1,218.0 billion, respectively. The trade figures imply that the trade surpluses (being the difference of export value and import value) was narrowing, as given by the fact that the import value (whose CAGR was 16.2% from 2007-2011) grew faster than export value (whose CAGR was 11.7% from 2007-2011). The following chart sets out the total import and export value between 2007 and 2011.

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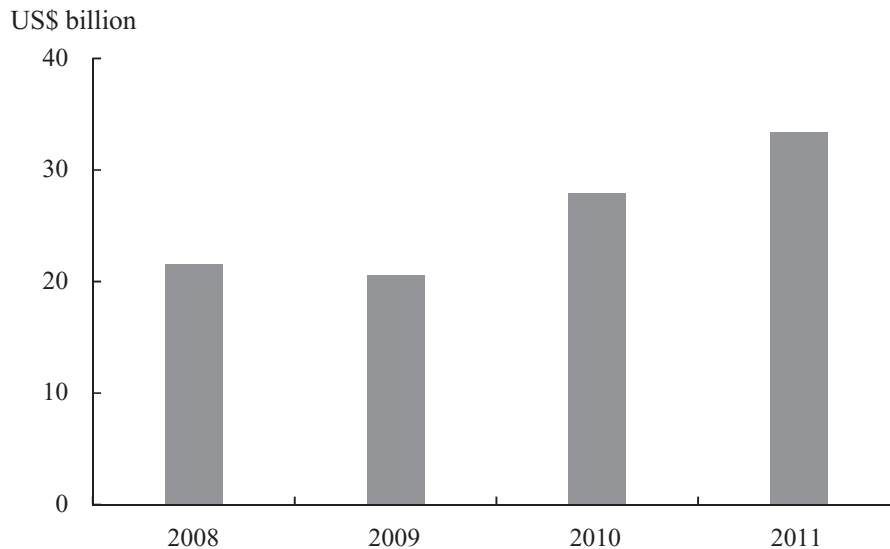
Import value and export value in the PRC



(Source: Ministry of Commerce of the PRC)

According to the General Administration of Customs of the PRC, import value of food amounted to approximately US\$33.7 billion in 2011, up from approximately US\$21.8 billion in 2008, representing a CAGR of 15.7% between 2008 and 2011. The following chart illustrates the total import value of food in the PRC between 2008 and 2011.

Total import value of food in the PRC



(Source: General Administration of Customs of the PRC)

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Overview of frozen food products in the PRC

The PRC is the most populous country in the world with over 1.3 billion people. The huge population together with a trend of increasing disposable income indicates a potentially great consumer markets and booming demand for processed food. In the PRC, the market of the frozen food products has shown consistent growth over the past few years. The Company believes that it is mainly attributable to the following factors:

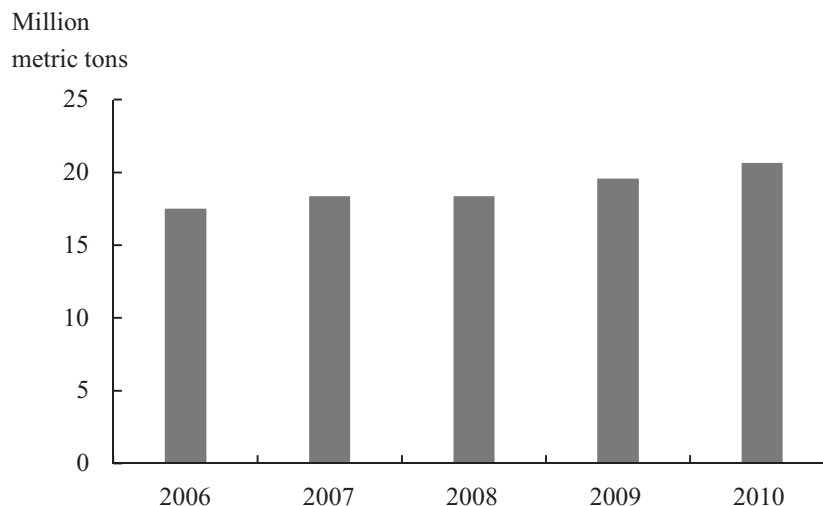
- An increase in disposable income in the PRC’s urban households;
- The increase in the number of home and restaurants owning refrigerators;
- The increase in the number of dual-income families, which look for time saving convenience; and
- The proliferation of supermarkets and convenience stores equipped with refrigerators that facilitate the distribution and selling of frozen food products.

The fishery industry in the PRC

The Company is of the view that industry outlook of fishery is fundamentally affected by the health consciousness in relation to consumption of fish and seafood. The improving living standard and rising income of the people in the PRC would be favourable to the consumption of fish and seafood.

According to latest information from the Food and Agriculture Organisation of the United Nations (the “**FAO**”), the PRC was the largest producer of aquaculture, produced approximately 35 million metric tons in 2009 and accounted for over half of the world’s total aquaculture production of approximately 55.1 million metric tons.

According to the PRC Fishery Yearbook published by the Fishery Bureau of the Ministry of Agriculture, the PRC cultured approximately 20.6 million metric tons of freshwater fish in 2010. Freshwater fish cultured in 2006 was recorded at approximately 17.5 million metric tons. This represents a CAGR of freshwater fish culture of 4.2% between 2006 and 2010. The following diagram shows the annual culture of freshwater fish in terms of volume in the PRC between 2006 and 2010:

Annual culture of freshwater fish in the PRC

(Source: China Fishery Yearbooks)

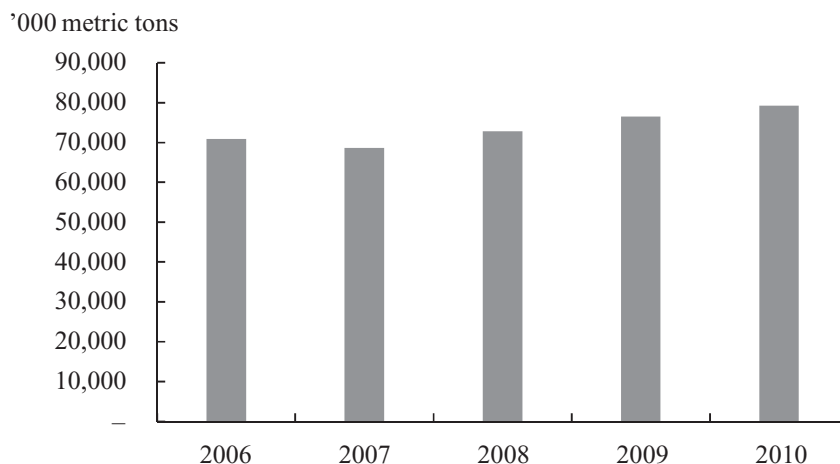
The meat industry in the PRC

From 2006 to 2010, the total annual raw meat production in the PRC grew from approximately 70,890 metric tons to approximately 79,258 metric tons, representing a CAGR of approximately 2.83%. According to the FAO, the PRC increased its production of meat more than sixfold from 1980 to 2007. In 2009, the FAO reckoned that the PRC's meat production accounted for nearly 50% of meat production in developing countries and 31% of world production. The China Animal Agriculture Association also suggested that meat production was changed significantly during 1980 and 2010 and reckoned that proportion of pork in total meat produced was dropped while proportion of poultry increased.

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The following diagram shows the annual production of raw meat in terms of volume in the PRC between 2006 and 2010:

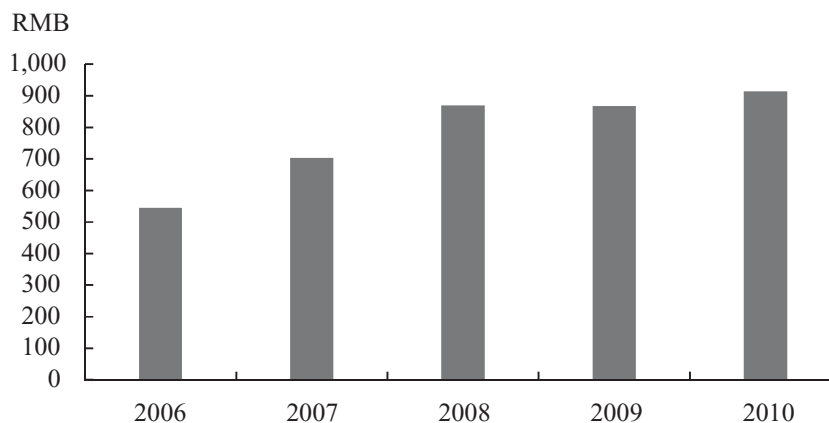
Annual production of raw meat in the PRC



(Source: National Bureau of Statistics of China)

The chart below demonstrates the trend of average urban annual consumption expenditure per capita on meat, poultry and processed products in the PRC from 2006 to 2010:

Annual urban consumption expenditure per capita for meat, poultry and processed products in the PRC



(Source: National Bureau of Statistics of China)

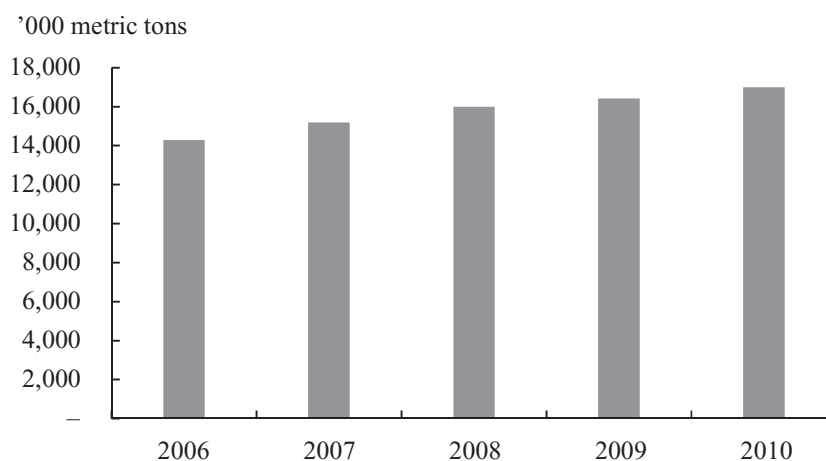
The poultry industry in the PRC

According to the FAO, when poultry is classified to include domestic fowls, guinea fowl, ducks, geese and turkeys, total annual production of poultry meat in terms of metric tons in the PRC from 2006 to 2010 is depicted in the following diagram. It can be shown that the total production of poultry meat in the PRC was growing steadily, from

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approximately 14.3 million metric tons in 2006 to approximately 17.0 million metric tons in 2010, representing a CAGR of 4.4%. It is expected that such trend of growth would continue in the anticipation that population will increase.

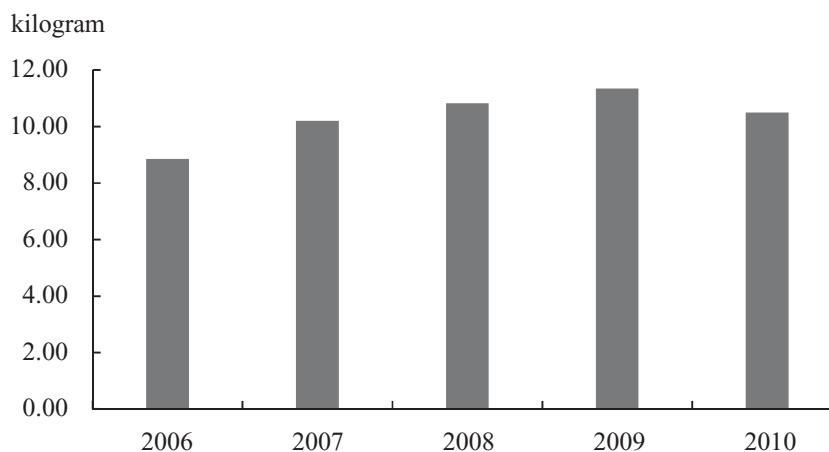
Annual production of poultry meat in the PRC



(Source: Food and Agriculture Organisation of the United Nations)

According to the National Bureau of Statistics of China, annual sales of poultry per capita of rural household in the PRC from 2006 to 2010 did not demonstrate a clear increasing nor decreasing trend. The diagram below shows the annual sales of poultry per capita of rural household in the PRC from 2006 to 2010:

Sales of poultry per capita of rural household in the PRC



(Source: National Bureau of Statistics of China)

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Major legal and regulatory requirements

Major rules and regulations relating to the business of the Group in Hong Kong

Pursuant to the Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong), importers of frozen meat, chilled meat, frozen poultry and chilled poultry are required to apply for an import licence from the Food and Environmental Hygiene Department of the Hong Kong Government for each consignment to be imported into Hong Kong. Each licence application must be supported by a valid health certificate issued by the recognised authority of the exporting country covering the consignment or by specific approval from the Director of Food and Environmental Hygiene. An import licence is normally valid for one shipment only and for a period of 6 weeks from the date of issue. Upon the full commencement of the Food Safety Ordinance (Chapter 612 of the Laws of Hong Kong) (“FSO”), import license for frozen meat, chilled meat, frozen poultry and chilled poultry will only be issued to importers registered under the registration scheme for food importers and food distributors or food trader exempted under the FSO.

Pursuant to the FSO, a person is required to register with the Director of Food and Environmental Hygiene (“DFEH”) as a food importer to carry on food importation business. The application for registration must identify the main food categories and food classifications of all food to be imported by the business and include or be accompanied by any documents or information reasonably required by the DEFH for the purpose of considering the application. For trading frozen seafood, an importer should be registered under the category – aquatic products (other than snack food, sashimi and ready-to-eat raw oyster); whereas for other frozen meat, chilled meat, frozen poultry and chilled poultry, an importer should be registered under the category – meat and meat products (other than snack food and sashimi). Further, food traders are required to keep records of the businesses from which they obtained their food and the business to which they supplied their food.

According to the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong), no food intended for sale should be unfit for human consumption. Pursuant to the Imported Game, Meat and Poultry Regulations (Chapter 132AK of the Laws of Hong Kong), imported meat or poultry or game or prohibited meat must be imported with an official certificate issued by a competent authority recognized by DFEH. Meat or poultry may be imported without an official certificate subject to the permission in writing of a health officer and to such conditions as he may impose. The import of meat or poultry accompanied by an official certificate issued by a competent authority does not require prior approval of Food and Environmental Hygiene Department.

Major rules and regulations relating to the business of the Group in the PRC

Under the laws of the PRC, laws and regulations applicable to food production and wholesale operations for Sincere Gold in the PRC are: “Food Safety Law of the PRC” (《中華人民共和國食品安全法》), “Regulations on the Implementation of the Food Safety Law of the PRC” (《中華人民共和國食品安全法實施條例》), “Order of the State Administration for Industry and Commerce (No. 44) the Measure of Administration of Food Circulation Permit” (《國家工商行政管理總局令(第44號)食品流通許可證管理辦法》), “Regulations on Safety Production Permit” (《安全生產許可證條例》), “Administrative Permission Law of the PRC” (《中華人民共和

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國行政許可法》). Domestic companies engaging in food wholesale business in the PRC shall obtain food production permits, and food circulation permits according to the laws. However, food manufacturers, which have obtained food production permits, are not required to obtain permission for selling products that are produced at their own production sites.

Laws and regulations applicable to food export business of Sincere Gold are: “Food Safety Law of the PRC” (《中華人民共和國食品安全法》), “Regulations on the Implementation of the Food Safety Law of the PRC” (《中華人民共和國食品安全法實施條例》), “Law of the PRC on Import and Export Commodity Inspection” (《中華人民共和國進出口商品檢驗法》), “Regulations on the Implementation of the Law of the PRC on Import and Export Commodity Inspection” (《中華人民共和國進出口商品檢驗法實施條例》). Export food production enterprises should file an application with State’s exit-entry inspection and quarantine bureaus. The consignor or the agent of the export commodities, which have been inspected by the commodities inspection institutions, shall report the inspection to the commodities inspection institutions at the site within the prescribed period of time designated by the commodities inspection institutions. Commodity inspection institutions shall complete the inspection within the standardised period specified by the state commodity inspection departments, and issue the inspection certificate. The customs examine and approve the goods based on the certificates of customs clearance issued by the commodity inspection institutions.

The Group has obtained all the relevant permits and licenses required for its business operations. The management of the Group is not aware of any reasons that licenses and permits including these under the Sincere Gold Agreement cannot be renewed when they expired.

RISKS RELATING TO THE BUSINESS OF THE GROUP

Set out below are the major potential operational and market risks which may be faced by the Group:

Dependence on key management personnel

The Group’s operations are dependent on the experience and expertise of the key management personnel. Although most of the key management staff have worked with the acquired businesses for a long time, there is no assurance that separation of any such key management personnel for any reason will not occur, which may have a material adverse effect on the operations of the Group.

Dependence on a stable and adequate supply of raw materials in the PRC

A large volume and wide variety of raw material from the PRC are being used in the Group’s business operation. The occurrence of natural disaster, pest infections, energy shortages or disruptions in transportation infrastructure may interrupt the supply of raw materials and any disruptions to or decline in the supply or quality of our raw materials could materially disrupt the production and adversely affect the business of the Group.

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Natural disasters

The fish business, by nature, is subject to a high degree of exposure to the risks of natural disasters and adverse weather conditions such as droughts, floods, earthquakes, hailstorms, windstorms, pests and plagues. There is no assurance that in the event when natural disasters occur, the operations of the fish ponds, as well as the production lines, will not be adversely affected.

Risks relating to overseas exports

The Group generates some of the revenue by exporting products to North America and Europe. Changes in political or economic conditions in these markets may adversely affect the operations of the Group. While further deterioration of economic conditions in these markets may not be imminent, it is possible that the global business environment may deteriorate in the future which may have an adversely effect on the markets where the Group operates. This could reduce the revenue or profit of the Group and have a negative impact on the Group's businesses.

Reliance on stable and adequate overseas imports

Some of the unprocessed products are imported from North America and Europe and these products used in the Group's production process are subject to a degree of price volatility caused by external conditions, such as climate or environmental conditions, price fluctuations in commodity markets, currency fluctuations and changes in government policies. The Group is exposed to fluctuations in the exchange rates between the Renminbi and the foreign currencies that are used to settle for the imported products. Should the Renminbi depreciate against these foreign currencies, the costs of imports may increase and the profitability of the Group may then be affected.

Food safety

The Group exports a large portion of the products overseas and some of these countries may impose various technical and food safety requirements on the exports. If the Group fails to meet all the standards adopted by these countries, the company's business could be adversely affected.

Seasonality and business operations

The production and operations of the Group's business may be subject to seasonality and as a result, the operating results and cash flows may vary substantially between fiscal quarters.

Distributors and transport operators

The Group relies on transport operators and wholesale distributors for the delivery of the products. Delivery disruptions, for various reasons beyond the control of the Group, including weather conditions, political turmoil, social unrest, strikes and inadequate capacity of the transport operators could lead to delayed or lost deliveries. Any delivery delays may

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lead to loss of revenue and could also damage the reputation of the Group. Selling and distribution costs have a direct impact on the profitability of the Group. Should selling and distribution costs continue to rise, and should the Group be unable to offset such increases, the profitability of the Group could be adversely affected.

Licenses and Permits to operate in the PRC

The Group is required to maintain various licenses and permits to operate in the PRC in compliance with the PRC laws, which includes, but not limited to, hygiene permits and production permits. The Group is required to comply with applicable hygiene and food safety standards in relation to the production processes and the relevant regulatory authorities carry out regular inspections to ascertain our compliance with applicable regulations. Failure to comply the applicable standards could lead to suspension or even revocation of licenses and could disrupt the operations of the Group.

Risks relating to conducting operations in the PRC

The financial results, business operations, financial positions and future prospects of the Group are subject to a large degree to the economic, political and legal development of the PRC. Any changes in the political and economic policies/environments of the PRC (including, but not limited to, government policies, political instability, expropriation, laws, labour activism, war, civil unrest, terrorism, and changes in interest rates, foreign exchange rates, taxation environmental regulations and import and export duties and restrictions) may adversely affect the Group's business and results of operations as well as its ability to sustain its expansion strategies and this future growth.

AUDIT QUALIFICATIONS

As set out in the Appendix I to this circular, the auditor of the Company has given a disclaimer of opinion on the consolidated financial statements of the Company for each of the three years ended 31 December 2011. The basis for the disclaimer of opinion for each of the three years ended 31 December 2011 is also set out in the Appendix I to this circular.

The Company anticipates that for audit qualifications set out in the independent auditor's report for the year ended 31 December 2011 in relation to: (i) accruals, other payables and deposits received (including the amount of approximately RMB55,803,000 due to Mr. Yeung); (ii) financial guarantee liabilities of approximately RMB13.5 million arising from the corporate guarantees provided by the Company to the PRC Subsidiaries (which were deconsolidated from the Group since 1 July 2008) over certain bank loans; (iii) commitments and contingent liabilities; and (iv) related party transactions, of the Company and the Excluded Companies, will be removed as all the liabilities of, and claims against, the Company will be fully compromised and discharged after the Scheme becomes effective and the Excluded Companies will be transferred to the Newco 2 or such other nominee of the Scheme Administrators after completion of the Group Reorganisation.

The consolidated financial statements of the Company for the year ended 31 December 2011 have been prepared on a going concern basis on the assumption that the Proposed Restructuring will be successfully completed, and following the Proposed Restructuring, the

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Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. In relation to the material uncertainty relating to the going concern basis as mentioned in the independent auditor's report for the year ended 31 December 2011, the Company considers that the Group will become liquid with positive net current assets and net assets following the issue of the Offer Shares, the Subscription Shares and completion of the Scheme and the Group Reorganisation as exhibited in the "Unaudited Pro Forma Financial Information of the Group" as included in Appendix III in this circular. Therefore, in the absence of any unforeseen events, the Company expects that this qualification will be removed in the consolidated financial statements for the year ending 31 December 2012.

Assuming that the Group Reorganisation is completed and the Scheme becomes effective during the financial year ending 31 December 2012, as the assets and liabilities of the Excluded Companies will not be consolidated into the Group's consolidated financial statements and the Company's indebtedness, including commitments and contingent liabilities, and related parties liabilities, will be compromised and discharged from then on the Company expects that the above four audit qualifications will not recur in the Group's consolidated financial statements for the year ending 31 December 2012. Nevertheless, the Company expects that there will be audit qualifications in the Group's consolidated financial statements for the year ending 31 December 2012 in relation to: (i) the opening balances and corresponding figures (i.e. year ended 31 December 2011); (ii) deconsolidation of the subsidiaries as "no sufficient evidence" can be provided to satisfy the Company's auditor as to the loss of control of certain subsidiaries since 1 July 2008 until completion of the Scheme, which is accordingly unable to satisfy the Company's auditor as to the completeness of the transactions of the Group for period from 1 January 2012 until completion of the Scheme; and (iii) the gain on completion of the Scheme and Group Reorganisation as "no sufficient evidence" can be provided to satisfy the Company's auditor as to the carrying amounts of various items to be derecognised upon completion of the Scheme and the Group Reorganisation. For the year ending 31 December 2013, the Company expects that there will be an audit qualification on the corresponding figures (i.e. year ending 31 December 2012) regarding: (i) completeness of transactions of the Group for the period from 1 January 2012 until completion of the Scheme; and (ii) gain on completion of the Scheme and the Group Reorganisation as recognised in the consolidated statement of comprehensive income and disclosed in related notes. For the year ending 31 December 2014, the Company expects that there should be no audit qualifications in relation to the matters discussed above.

ANDA CPA Limited, the auditor of the Company, has agreed the aforesaid description in relation to the rectification of the audit qualifications regarding (i) accruals, other payables and deposits received (including the amount of approximately RMB55,803,000 due to Mr. Yeung); (ii) financial guarantee liabilities of approximately RMB13.5 million arising from the corporate guarantees provided by the Company to the PRC Subsidiaries (which were deconsolidated from the Group since 1 July 2008) over certain bank loans; (iii) commitments and contingent liabilities; (iv) related party transactions of the Company and the Excluded Companies; and (v) the material uncertainty relating to the going concern basis, as mentioned in the independent auditor's report for the year ended 31 December 2011. Having considered the above and barring any unforeseen circumstances, the

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Provisional Liquidators, the Directors, the Investor and the proposed Directors consider that the aforesaid audit qualifications set out in the year ended 31 December 2011 will no longer remain beyond the financial year ending 31 December 2012.

BACKGROUND AND FUTURE INTENTIONS OF INVESTOR

Background of the Investor

The Investor is a company incorporated in the BVI with limited liability and its principal business is investment holding. The ultimate beneficial owner and the sole director of the Investor is Mr. Huang. Please refer to the sub-section headed “Proposed appointment of new Directors” below for Mr. Huang’s biographical details.

The Investor, Mr. Huang and their respective concert parties together with their respective associates have confirmed to the Company that they are independent third parties and not connected persons of the Company as defined under the Listing Rules, and have not dealt in the securities of the Company during the Relevant Period. The Investor, Mr. Huang and their respective concert parties confirm that they will not deal in any securities of the Company before the completion of the Open Offer and the Share Subscription.

Future intention of the Investor

The Investor has assisted the Provisional Liquidators to devise the business plans and supported the implementation by providing financial support during the restructuring period to enable the reactivation and continuance of the Group’s business since October 2009. Upon Completion, the Investor will inject further capital to the Restructured Group through the subscription of the Subscription Shares.

The Restructured Group, the Investor or the Directors (including the proposed Directors) has no agreement, arrangement, intention, negotiation and/or plan about any acquisition, disposal of company or assets, and/or to carry out a principal business other than the existing business of the Group within 24 months after the Resumption. The Investor and Mr. Huang also confirm that they have no intention or plan to disposal of its controlling interests in the Company within 24 months after the Resumption.

Following the Resumption, the Investor will conduct a further review on the business operations and financial position of the Group for the purpose of formulating appropriate business plans and strategies in order to enhance the long-term growth potential of the Group.

Proposed appointment of new Directors

As present, the Board comprises one executive Director, Mr. Lee Wa Lun Warren and three independent non-executive Directors, Mr. Wong Chi Keung, Mr. Leung King Yue Alex and Mr. Tang Chi Chung Matthew. Upon Completion, the Investor proposes to nominate three new executive Directors to strengthen the management of the Group. Mr. Lee Wa Lun

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Warren will be re-designated as a non-executive Director upon the Resumption. None of the Directors (including the proposed Directors) has intention to resign from the Board shortly after the Resumption.

Set out below are the biographical details of the existing Directors.

Executive Director

Mr. Lee Wa Lun, Warren

Mr. Lee Wa Lun, Warren, (“**Mr. Lee**”) aged 48, joined the Group in December 2008 as an executive Director. He is the Chairman of SHK Hong Kong Industries Limited (formerly known as Yu Ming Investments Limited), which is listed on the Main Board of the Stock Exchange, and a director and a responsible officer of Yu Ming Investment Management Limited, which is a licensed corporation regulated by the SFO to carry on activities of dealing in securities, advising on securities, advising on corporate finance and asset management. From December 2006 to May 2007, he was the chief executive officer of Nam Tai Electronics, Inc., an electronics manufacturing services provider listed on the New York Stock Exchange. From March 2004 to February 2006, Mr. Lee was an independent non-executive director of Nam Tai Electronic & Electrical Products Limited (“**NTEEP**”), and from February 2006 to April 2007, he was re-designated as a non-executive director. From January 2007 to April 2007, he was also a non-executive director of J.I.C. Technology Company Limited (“**JIC**”). Both of NTEEP and JIC were listed on the main board of the Stock Exchange. Mr. Lee is also a non-executive chairman of Rotol Singapore Limited since November 2007. Rotol Singapore Limited was listed on the Main Board of the Singapore Exchange Limited until August 2011. Mr. Lee graduated from University of East Anglia in England in 1986 and obtained a distinction in Master of Science degree from The City University Business School in London in 1988.

Save for his directorship with the Company, Mr. Lee has not previously held and is not holding any other position with any of the Company or its subsidiaries.

Save as disclosed above, Mr. Lee does not hold any other directorships in any listed public companies in the last three years.

Mr. Lee does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Lee does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The appointment of Mr. Lee will be subject to the re-election and retirement by rotation provisions under the bye-laws of the Company. The remuneration of Mr. Lee will be determined by the remuneration committee of the Company and the Board by reference to his duties and responsibilities with the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Lee that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

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Independent Non-executive Directors

Mr. Wong Chi Keung

Mr. Wong Chi Keung (“**Mr. Wong**”), aged 57, joined the Group in November 2007. He is the chairman of the Company and an independent non-executive Director. He obtained a master degree in business administration from the University of Adelaide in Australia in 1986. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and CPA Australia, an associate member of the Institute of Chartered Secretaries and Administrators and the Chartered Institute of Management Accountants. He is a responsible officer for asset management, advising on securities and corporate finance for Greater China Capital Limited. (formerly known as Sinox Fund Management Limited) under the SFO. He is currently an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Nickel Resources Holdings Company Limited, China Ting Group Holdings Limited, ENM Holdings Limited, Golden Eagle Retail Group Limited, Ngai Lik Industrial Holdings Limited, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited, TPV Technology Limited and Zhugang Holdings Group Company Limited, all of which are listed on the Stock Exchange. Mr. Wong was formerly an independent non-executive director of FU JI Food and Catering Services Holdings Limited (Provisional Liquidators Appointed), Great Wall Motor Company Limited and International Entertainment Corporation.

Save for his directorship with the Company, Mr. Wong has not previously held and is not holding any other position with any of the Company or its subsidiaries.

Save as disclosed above, Mr. Wong does not hold any other directorships in any listed public companies in the last three years.

Mr. Wong does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Wong does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The appointment of Mr. Wong will be subject to the re-election and retirement by rotation provisions under the bye-laws of the Company. The remuneration of Mr. Wong will be determined by the remuneration committee of the Company and the Board by reference to his duties and responsibilities with the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Wong that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

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Mr. Leung King Yue

Mr. Leung King Yue, Alex (“**Mr. Leung**”), aged 35, joined the Group in December 2008. He holds a bachelor degree in Commerce specialising in Economics and Finance from the University of Melbourne in Australia and is a Chartered Financial Analyst of the United States of America. He started his career in investment banking in 2000 focusing on private equity projects, corporate finance advisory, merger and acquisition transactions and listed equities. Mr. Leung then joined JK Capital Management Limited in 2003 as a portfolio manager specialising in investments in global high yield fixed income securities and listed Chinese equities. He is licensed by the SFO to carry out securities advisory, corporate finance advisory and asset management activities. He is currently a responsible officer of both JK Capital Management Limited and Asian Asset Management Limited. Mr. Leung was an executive director of Mastermind Capital Limited (formerly known as Apex Capital Limited) during the period from 9 March 2007 to 12 May 2010, and was an executive director of UBA Investments Limited during the period from 17 July 2007 to 1 December 2008. Both of the companies are listed on the Main Board of the Stock Exchange. He was an executive director of Coolpoint Energy Limited (formerly known as GreaterChina Technology Group Limited) during the period from 14 July 2008 to 23 June 2010, a company listed on the Growth Enterprise Market of the Stock Exchange.

Save for his directorship with the Company, Mr. Leung has not previously held and is not holding any other position with any of the Company or its subsidiaries.

Save as disclosed above, Mr. Leung does not hold any other directorships in any listed public companies in the last three years.

Mr. Leung does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Leung does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The appointment of Mr. Leung will be subject to the re-election and retirement by rotation provisions under the bye-laws of the Company. The remuneration of Mr. Leung will be determined by the remuneration committee of the Company and the Board by reference to his duties and responsibilities with the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Leung that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Tang Chi Chung

Mr. Tang Chi Chung, Matthew (“**Mr. Tang**”), aged 52, joined the Group in December 2008. He has over 12 years of extensive experience in fresh produce marketing. He started his career in fresh produce business as a business development manager of Polly Peck International (Hong Kong) Limited, the then shareholder of Del Monte Fresh Produce (HK) Limited. Between 1992 and 2002, Mr. Tang worked for a number of fresh produce marketing companies, including the position of general manager of Fresh Produce Department of Dah

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Chong Hong Limited, and business development director of Del Monte Fresh Produce (HK) Limited. Since 2002, He worked for Linkage Holdings Limited developing fresh fruits and vegetables business in the PRC and overseas. He was an independent non-executive director of Coolpoint Energy Limited (formerly known as GreaterChina Technology Group Limited) during the period from 18 February 2009 to 23 June 2010, a company listed on the Growth Enterprise Market of the Stock Exchange.

Save for his directorship with the Company, Mr. Tang has not previously held and is not holding any other position with any of the Company or its subsidiaries.

Save as disclosed above, Mr. Tang does not hold any other directorships in any listed public companies in the last three years.

Mr. Tang does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Tang does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The appointment of Mr. Tang will be subject to the re-election and retirement by rotation provisions under the bye-laws of the Company. The remuneration of Mr. Tang will be determined by the remuneration committee of the Company and the Board by reference to his duties and responsibilities with the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Tang that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Set out below are the biographical details of the proposed new executive Directors.

Proposed executive Directors

Mr. Huang Kunyan

Mr. Huang, aged 42, is proposed to be appointed as an executive Director. Mr. Huang has many years of experience in corporate management and wholesale business of sub-agricultural products in the PRC. He is proposed to be appointed as an executive Director and will be responsible for the overall strategic planning of the business development of the Group upon Completion.

Save for his proposed directorship with the Company, Mr. Huang has not previously held and is not holding any other position with any of the Company or its subsidiaries. Mr. Huang does not hold any other directorships in any listed public companies in the last three years.

Mr. Huang does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Huang does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

The appointment of Mr. Huang will be subject to the re-election and retirement by rotation provisions under the bye-laws of the Company. The remuneration of Mr. Huang will be determined by the remuneration committee of the Company and the Board by reference to his duties and responsibilities with the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Huang that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Shum Chin Tong Peter (“Mr. Shum”)

Mr. Shum, aged 69, is proposed to be appointed as an executive Director, Mr. Shum is the general manager of Supreme Wit and is responsible for the overall operations of the Group. Mr. Shum has previously worked in Jardine Marketing Service Company under the division of customer products, in which he has accumulated years of experience in promotion, sales, marketing and purchase in food industries.

Save for being as a general manager of Supreme Wit and the proposed directorship with the Company, Mr. Shum has not previously held and is not holding any other position with any of the Company or its subsidiaries. Mr. Shum does not hold any other directorships in any listed public companies in the last three years.

Mr. Shum does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Shum does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The appointment of Mr. Shum will be subject to the re-election and retirement by rotation provisions under the bye-laws of the Company. The remuneration of Mr. Shum will be determined by the remuneration committee of the Company and the Board by reference to his duties and responsibilities with the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Shum that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

Mr. Dennis Wai Tak Yau (“Mr. Yau”)

Mr. Yau, aged 53, is proposed to be appointed as an executive Director. Mr. Yau has years of experience in accounting, finance and administration. He is currently the Executive Director/Chief Financial Officer of The Rising Peak Group, a PRC properties developer based in Hong Kong. Prior to that, Mr. Yau was involved in the properties, shipping industry, where he worked as finance director/general manager of the finance department at the Hong Kong United Dockyards Group (HUD). Mr. Yau holds a Bachelor’s Degree in Economics from the Macquarie University in Australia, and is a member of the Australian Society of Certified Practicing Accountants.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Save for his proposed directorship with the Company, Mr. Yau has not previously held and is not holding any other position with any of the Company or its subsidiaries. Mr. Yau does not hold any other directorships in any listed public companies in the last three years.

Mr. Yau does not have any interests in the Shares within the meaning of Part XV of the SFO. Mr. Yau does not have any relationship with any directors, senior management, substantial Shareholders or controlling Shareholders of the Company.

The appointment of Mr. Yau will be subject to the re-election and retirement by rotation provisions under the bye-laws of the Company. The remuneration of Mr. Yau will be determined by the remuneration committee of the Company and the Board by reference to his duties and responsibilities with the Company.

Save as disclosed above, there is no other matters in relation to the appointment of Mr. Yau that need to be brought to the attention of the Shareholders nor is there any information which is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

The Company did not carry out any rights issue, open offer or other issue of equity securities for fund raising purpose or otherwise within the past 12 months immediately prior to the Latest Practicable Date.

DECISION LETTER AND CONTINUED SUSPENSION OF TRADING IN SHARES

Trading in the Shares on the Stock Exchange has been suspended since 15 December 2008. After considering the Resumption Proposal submitted by Asian Capital on behalf of the Company, the Listing Appeals Committee issued the Decision Letter to the Company agreeing in principle that the trading in the shares of the Company will be resumed subject to the Company's compliance with the Resumption Conditions as set out below to the satisfaction of the Listing Division:

1. the Company's operating profit for the year ended 31 December 2011 should not be less than HK\$18 million;
2. obtaining approval from the Company's shareholders and the relevant courts (where applicable) for conditions 3 to 6 below;
3. completion of the arrangement for the Capital Restructuring, which comprises the Capital Reduction, Capital Cancellation, Share Consolidation and the Increase in Authorised Share Capital;
4. completion of the Open Offer on the basis of every seven Offer Shares for one New Share at HK\$0.5622 each to be fully underwritten by the Investor;
5. obtaining the requisite creditors' approval for the debt restructuring/Scheme (with the relevant sanction from courts thereafter), under which a cash payment of HK\$62 million out of the proceeds from the Share Subscription will be paid to

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

the Creditors and the Company will issue 14,823,936 New Shares to the Creditors or the Scheme Administrators for the benefit of the Creditors who agree to enter into the Scheme;

6. obtaining approval from the Executive for both the Whitewash Waiver and the Special Deal;
7. production of a written confirmation to the Listing Division by an independent auditor confirming the following:
 - a. completion of the Share Subscription of 266,830,850 New Shares by the Investor at the Subscription Price of HK\$0.5622 each at a total consideration of approximately HK\$150 million; and
 - b. the net proceeds from the Share Subscription by the Investor are held by a bank in Hong Kong in the name of the Company;
8. full payment of all and any outstanding listing fees by the Company;
9. cancellation of the Debenture over the assets of Supreme Wit;
10. confirmation from the Provisional Liquidators, with supporting information, as to the working capital sufficiency of the Company up to and at least twelve months after the date of Resumption;
11. if the Resumption does not take place before 1 April 2012, the Company to have published its audited accounts for the year ended 31 December 2011; and
12. the Investor to place down its shares to restore the Public Float (as necessary) within one month of Resumption.

Save for Resumption Conditions 11 and 12 above, all of the above resumption conditions must be complied with to the satisfaction of the Listing Division within six months from the Decision Letter, i.e., 30 March 2012. The deadline may be extended by the Listing Division on good cause being shown by the Company.

As set out in the Company's audited annual report for the year ended 31 December 2011, the Company recorded an operating profit of approximately RMB15.42 million (equivalent to approximately HK\$18.59 million) for the year ended 31 December 2011, which shall exceed the HK\$18 million required by the Resumption Condition 1 above.

The expected timetable to fulfill all the Resumption Conditions is set out in the section headed "Expected Timetable" in this circular.

As mentioned in the paragraphs headed "Conditions Precedent of the Restructuring Agreement" above in this circular, the Investor shall have the right to waive the Conditions Precedent (e)(iv) and (f) in relation to the Whitewash Waiver and the Condition Precedent (g) in relation to the Special Deal. In the event that the Investor waives any of the aforesaid

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

Conditions Precedent, the Company will seek an amendment to the Resumption Conditions by the Stock Exchange to facilitate the completion of the Proposed Restructuring. However, there is no certainty that the Stock Exchange will agree to such amendment.

As the Company was not be able to comply with the Resumption Conditions as set out above by the deadline imposed by the Listing Appeals Committee, the Company has made an application to the Listing Division to seek and the Listing Division in its letter dated 10 May 2012 agreed to grant additional four months to fulfill the Resumption Conditions, i.e., on or before 31 July 2012. As set out in the section headed “Expected Timetable” in this circular, it is expected that the Company will not be able to fulfill all the Resumption Conditions on or before 31 July 2012, the Company will make an application to the Listing Division to seek a further extension of the deadline from 31 July 2012 to 30 September 2012. The Listing Division may or may not grant such further extension. Further announcements will be made by the Company when and as appropriate to update the Shareholders and potential investors the application for further extension and the progress in the fulfillment of the Resumption Conditions.

SGM

The SGM will be held to consider and, if thought fit, approve, among other things, (i) the Capital Restructuring; (ii) the Open Offer; (iii) the Share Subscription; (iv) the Whitewash Waiver; (v) the Special Deal; (vi) the Group Reorganisation; and (vii) the transactions contemplated thereunder and all these resolutions shall be voted by way of poll.

As at the Latest Practicable Date, Mr. Yeung is the registered shareholder of the entire share capital of Regal Splendid, which in turn is the registered shareholder of 416,665,000 Shares, representing approximately 35.13% of the issued share capital of the Company. On 20 January 2010, Sun Hung Kai Structured Finance Limited and Sun Hung Kai Investment Services Limited obtained a charging order against Regal Splendid, which had pledged its holding of the Charged Shares and defaulted the loan owed to Sun Hung Kai Structured Finance Limited and Sun Hung Kai Investment Services Limited. Pursuant to the order of Hong Kong Court dated 16 March 2012, provisional liquidators were appointed to take control of Regal Splendid, and they are empowered to, among others, exercise Regal Splendid’s rights in the Charged Shares in the best interests of creditors of Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder’s meeting of the Company. The winding up order has been issued on 30 May 2012 by the Hong Kong Court. As the Open Offer would increase the issued share capital of the Company by more than 50% within the 12 month period immediately preceding the date of the announcement of the Company dated 26 March 2012 in relation to the Open Offer, the Open Offer is conditional on the approval by the Independent Shareholders by way of poll in the SGM, where the controlling Shareholder, or in the case that the Company has no controlling Shareholder, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the Open Offer. Therefore, Regal Splendid shall abstain from voting in favour of the Open Offer.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

In addition, as mentioned in paragraphs headed “Special Deal” above, based on the books and records available to the Directors and the Provisional Liquidators, the Company owes approximately HK\$68 million to Mr. Yeung. Therefore Mr. Yeung is a potential Creditor under the Scheme. Under the Scheme, the indebtedness owed to the Creditors will be settled partially by the proceeds from the sales of the Creditors Shares and partially by the Cash Settlement which will be funded by the proceeds from the Share Subscription. The Creditors Shares will be issued by the Company to Newco 1 or such other nominee of the Scheme Administrators, and will then be sold by the Scheme Administrators in their absolute discretion for the benefit of the Creditors. Subject to adjudication, adjustment and relevant costs involved, it is estimated that approximately HK\$9.5 million, being the apportioned part of the sale proceeds of the Creditors Shares and the Cash Settlement, together with apportioned part of the realisation of the assets of the Excluded Companies, if any, will be paid to Mr. Yeung under the Scheme. The settlement with Mr. Yeung under the Scheme will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code.

Mr. Yeung and his concert parties and associates are considered to be parties interested in and/or involved in the Open Offer, the Share Subscription, the Whitewash Waiver and the Special Deal, and shall, therefore, not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM. However, the voting rights of the Charged Shares have been vested to the provisional liquidators of Regal Splendid according to the order of Hong Kong Court dated 16 March 2012, pursuant to which, the provisional liquidators have been appointed to take control of Regal Splendid, and they are empowered to, among others, exercise Regal Splendid’s rights in the Charged Shares in the best interests of creditors of Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder’s meeting of the Company.

As set out in the section headed “Underwriting Agreement” in this circular above, the Company entered into the Underwriting Agreement with the Underwriter in respect of Open Offer. The Underwriter entered into Sub-underwriting Letter with the Investor, who acts as a sub-underwriter in respect of the Open Offer. Therefore, the Underwriter, the Investor and their respective concert parties and associates are considered to be interested in the Open Offer, the Share Subscription and the Whitewash Waiver and the Special Deal, and shall not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM.

Save as mentioned in this circular, the Investor and the Underwriter, to the best knowledge of the Directors and the Provisional Liquidators having made all reasonable enquiries, the Directors and the Provisional Liquidators are not aware of any other Shareholders who are required to abstain from voting on the relevant resolutions at the SGM.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instruction printed thereon, and deposit it with the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited as soon as possible and

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

in any event not less than 48 hours before the time appointed for the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person in the SGM or any adjournment of it if you so wish.

An announcement will be made by the Company after the SGM on the results of the SGM pursuant to requirements of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive directors of the Board, which includes Mr. Wong Chi Keung, Mr. Leung King Yue Alex and Mr. Tang Chi Chung Matthew, has been established to advise the Independent Shareholders on the the Restructuring Agreement, the Open Offer, the Share Subscription, the issue of Creditors Shares under the Scheme, the Whitewash Waiver and the Special Deal by way of a poll at the SGM.

INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Restructuring Agreement, the Open Offer, the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and how the Independent Shareholders should vote in respect of the above.

RECOMMENDATION

The Board and the Provisional Liquidators consider that the terms of the Restructuring Agreement, the Open Offer, the Share Subscription, the issue of Creditors Shares under the Scheme, the Whitewash Waiver and the Special Deal are fair and reasonable and the entering into the Restructuring Agreement and the respective transactions contemplated thereunder is in the best interests of the Company and the Shareholders as a whole and recommend that the Independent Shareholders vote in favour of all the resolutions to be proposed at the SGM.

LETTER FROM THE BOARD AND THE PROVISIONAL LIQUIDATORS

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the letter of advice from the Independent Financial Adviser and the appendices to this circular.

Shareholders should note that the despatch of this circular does not indicate that the shares of the Company will resume trading on the Stock Exchange and the listing approval will be granted. The Shares may be delisted in the event that the Company fails to comply with the Resumption Conditions to the satisfaction of the Listing Division. Shareholders and investors are advised to exercise caution when dealing in the Shares.

For and on behalf of
**FIRST NATURAL FOODS
HOLDINGS LIMITED**
(Provisional Liquidators Appointed)
**Stephen Liu Yiu Keung
David Yen Ching Wai**
Joint and Several Provisional Liquidators

By order of the Board
**FIRST NATURAL FOODS
HOLDINGS LIMITED**
(Provisional Liquidators Appointed)
Wong Chi Keung
Chairman

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendations to the Independent Shareholders in relation to the transactions contemplated in the Restructuring Agreement (including the Share Subscription), the Open Offer, the Whitewash Waiver and the Special Deal for the inclusion in this circular.



FIRST NATURAL FOODS HOLDINGS LIMITED

(Provisional Liquidators Appointed)

第一天然食品有限公司*

(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

(stock code: 1076)

12 July 2012

To the Independent Shareholders

Dear Sir or Madam,

**OPEN OFFER ON THE BASIS OF SEVEN OFFER SHARES
FOR EVERY ONE NEW SHARE HELD ON THE OPEN OFFER RECORD DATE,
SUBSCRIPTION OF SUBSCRIPTION SHARES,
APPLICATION FOR THE WHITEWASH WAIVER
AND
CONSENT TO THE SPECIAL DEAL**

We refer to the circular of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) dated 12 July 2012 (the “Circular”) of which this letter forms part. Unless the context specifies otherwise, terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you as to whether the terms of the Open Offer, the transactions contemplated under the Restructuring Agreement (including the Share Subscription and the issue of Creditors Shares under the Scheme), the Whitewash Waiver and the Special Deal are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Goldin Financial Limited has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice to you and us, a copy of which is included on pages 83 to 109 of the Circular, we are of the opinion that the

* For identification purposes only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

transactions contemplated in the Restructuring Agreement (including the Share Subscription and the issue of Creditors Shares under the Scheme), the Open Offer, the Whitewash Waiver and the Special Deal are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the SGM to approve the transactions contemplated in the Restructuring Agreement (including the Share Subscription and the issue of Creditors Shares under the Scheme), the Open Offer, the Whitewash Waiver, and the Special Deal. A notice of the SGM is set out on pages SGM-1 to SGM-8 of the Circular.

Yours faithfully,

For and on behalf of the
Independent Board Committee

Wong Chi Keung
*Independent Non-executive
Director*

Leung King Yue, Alex
*Independent Non-executive
Director*

Tang Chi Chung, Matthew
*Independent Non-executive
Director*

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Restructuring Agreement, the Open Offer, the Share Subscription, the issue of Creditors Shares under the Scheme, the Whitewash Waiver and the Special Deal and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Goldin Financial Limited

23rd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

12 July 2012

*To: the Independent Board Committee and
the Independent Shareholders of
First Natural Foods Holdings Limited
(Provisional Liquidators Appointed)*

Dear Sirs,

**PROPOSED RESTRUCTURING OF FIRST NATURAL FOODS HOLDINGS LIMITED
(PROVISIONAL LIQUIDATORS APPOINTED)
INVOLVING, INTER ALIA,
CAPITAL RESTRUCTURING,
CREDITORS' SCHEME OF ARRANGEMENT IN ACCORDANCE WITH
SECTION 166 OF THE COMPANIES ORDINANCE AND
SECTION 99 OF THE COMPANIES ACT,
OPEN OFFER ON THE BASIS OF SEVEN OFFER SHARES
FOR EVERY ONE NEW SHARE HELD ON THE OPEN OFFER RECORD DATE,
SUBSCRIPTION OF SUBSCRIPTION SHARES,
APPLICATION FOR THE WHITEWASH WAIVER
AND CONSENT TO THE SPECIAL DEAL**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Restructuring Agreement, the Open Offer, the Share Subscription, the issue of Creditors Shares under the Scheme, the Whitewash Waiver and the Special Deal and the transactions contemplated thereunder (collectively the "Transactions"), details of which are set out in the Letter from the Board and the Provisional Liquidators (the "Board Letter") contained in the circular dated 12 July 2012 issued by the Company and the Provisional Liquidators (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

On 5 January 2012, the Company, the Provisional Liquidators, the Investor and the Guarantor entered into the Restructuring Agreement, which comprises, among others, the Capital Restructuring, the Open Offer, the Share Subscription, the Scheme and the Group Reorganisation.

Pursuant to the Restructuring Agreement, subject to the Capital Restructuring becoming effective, the Company will take such steps as are necessary to implement the Open Offer on the basis of seven (7) Offer Shares for every one (1) New Share held on the Open Offer Record Date by the Qualifying Shareholders at the Offer Price of HK\$0.5622 per Offer Share. The gross proceeds raised via the issue of the Offer Shares will be approximately HK\$58,338,000. As the Open Offer would increase the issued share capital of the Company by more than 50% within the 12 month period immediately preceding the date of the announcement of the Company dated 26 March 2012 in relation to the Open Offer, the Open Offer is conditional on the approval by the Independent Shareholders by way of poll in the SGM, where the controlling Shareholder, or in the case that the Company has no controlling Shareholder, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the Open Offer. Therefore, the provisional liquidators of Regal Splendid are required to abstain from voting in favour of the Open Offer.

Under the Restructuring Agreement, subject to the Conditions Precedent, the Investor agreed to subscribe for and the Company agreed to issue and allot 266,830,850 Subscription Shares at the Subscription Price of HK\$0.5622 per Subscription Share for a total consideration of approximately HK\$150 million.

Immediately upon completion of the Share Subscription, the Investor and its concert parties will be interested in 266,830,850 New Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her entitlement under the Open Offer), representing (i) approximately 69.2% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares and the Subscription Shares; and (ii) approximately 66.7% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares. Pursuant to Rule 26 of the Takeovers Code and in the absence of the Whitewash Waiver, the Investor and its concert parties would trigger an obligation to make a mandatory general offer for all the shares of the Company other than those already owned or agreed to be acquired by the Investor and its concert parties. In this respect, the Investor has made an application to the Executive under the Takeovers Code for the Whitewash Waiver to relieve it from its obligation to make a mandatory general offer as a result of the completion of the Share Subscription, and such grant will be subject to, among other things, approval of the Independent Shareholders in respect of the Whitewash Waiver at the SGM by way of poll. The Investor and its concert parties and those who are interested in and/or involved in, the Open Offer, the Share Subscription and/or the Whitewash Waiver and/or the Special Deal will abstain from voting on the resolutions approving the Open Offer, the Share Subscription, the Whitewash Waiver and the Special Deal.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Mr. Yeung is the registered shareholder of the entire share capital of Regal Splendid, which in turn is the registered shareholder of 416,665,000 Shares, representing approximately 35.13% of the issued share capital of the Company. Based on the books and records available to the Directors and the Provisional Liquidators, the Company owes approximately HK\$68 million to Mr. Yeung. Therefore Mr. Yeung is a potential Creditor under the Scheme. Under the Scheme, the indebtedness owed to the Creditors will be settled partially by proceeds from the sales of the Creditors Shares and partially by the Cash Settlement which will be funded by the proceeds from the Share Subscription. The Creditors Shares will be issued by the Company to Newco 1 or such other nominee of the Scheme Administrators, and will then be sold by the Scheme Administrators in their absolute discretion for the benefit of the Creditors. In the event that Mr. Yeung files claims against the Company and such claim is not disputed by the Provisional Liquidators and/or the Scheme Administrators and subject to adjudication, adjustment and relevant costs involved, it is estimated that approximately HK\$9.5 million, being the apportioned part of the sale proceeds of the Creditors Share and the Cash Settlement, together with any apportioned part of the realisation of the assets of the Excluded Companies, if any, will be paid to Mr. Yeung under the Scheme. The settlement with Mr. Yeung under the Scheme will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code. As at the Latest Practicable Date, Mr. Yeung has not filed any claim to the Provisional Liquidators.

The Company and the Underwriter have entered into the Underwriting Agreement on 9 July 2012, pursuant to which the Underwriter will fully underwrite the Offer Shares. The maximum number of the Untaken Shares underwritten by the Underwriter is 103,767,552 Offer Shares. The Underwriter will receive an underwriting commission of 3% of the aggregate subscription price for the Offer Shares. The Underwriter issued the Sub-underwriting Letter to the Investor dated 9 July 2012 for the Investor to accept to act as a sub-underwriter to subscribe for the Untaken Shares. Therefore, the Underwriter, the Investor and their respective concert parties and associates are considered to be interested in the Open Offer, the Share Subscription and the Whitewash Waiver and the Special Deal, and shall not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM.

Mr. Yeung and his concert parties and associates are considered to be parties interested in and/or involved in the Open Offer, the Share Subscription, the Whitewash Waiver and the Special Deal, and shall, therefore, not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM. However, the voting rights of the Charged Shares have been vested to the provisional liquidators of Regal Splendid according to the order of Hong Kong Court dated 16 March 2012, pursuant to which, the provisional liquidators have been appointed to take control of Regal Splendid, and they are empowered to, among others, exercise Regal Splendid's rights in the Charged Shares in the best interests of creditors of Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder's meeting of the Company. The provisional liquidators of Regal Splendid shall abstain from voting in favour of the Open Offer.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Leung King Yue Alex and Mr. Tang Chi Chung Matthew, has been established to make recommendations to the Independent Shareholders as to whether the terms and conditions of the Transactions are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser.

We, Goldin Financial Limited, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Transactions, and to make a recommendation as to, among others, whether the terms and conditions of the Transactions are fair and reasonable and as to voting in respect of the relevant resolutions at the SGM. Our appointment has been approved by the Independent Board Committee.

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the Restructuring Agreement, the Underwriting Agreement and the annual report of the Company for the year ended 31 December 2011 (the "Annual Report 2011"). We have also reviewed certain information provided by the management of the Company and the Provisional Liquidators relating to the operation, financial condition and prospect of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company and the Provisional Liquidators regarding the financials, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes as soon as possible.

The Directors and the Provisional Liquidators jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and the reasons for, the Transactions and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company or the Provisional Liquidators, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. We have not participated in the selection process of the restructuring proposals

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and we are therefore not in the position to comment on such process or the terms of any other proposals. Our opinion was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation on the Transactions to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background to and reasons for entering into the Restructuring Agreement

Business and financial information of the Group

The Company was listed on the Stock Exchange in 2002, and was principally engaged in the processing and trading a broad array of agricultural and marine food products, which can be broadly divided into three categories: frozen marine foods, frozen functional foods and refrigerated processed meat. The business operations of the Group were mainly conducted through the PRC Subsidiaries, namely Longyu, Jiajing and Dingwei. The Group, through Longyu, owned the premises, plant and equipment and operated its food processing activities at its food processing plant in Fuqing, Fujian Province, the PRC. The Company announced on 5 November 2008 that Deutsche Bank claimed against the Company a total amount of US\$15,927,075 (equivalent to approximately RMB100,741,993) plus accrued interest as a result of the early termination of the Swap. Trading in the Shares has been suspended since 15 December 2008 and the Provisional Liquidators were appointed by the Hong Kong Court to take control and preserve the assets of the Group. After many attempts made by the Provisional Liquidators, the Company has still not been able to exert control and authority over the PRC Subsidiaries since the appointment of the Provisional Liquidators, as such, financial results of the PRC Subsidiaries had been deconsolidated from the Group's financial statements since 1 July 2008.

According to the Board Letter, the Company has been implementing the three-phase business resurrection plan and at present the Group has built an integrated business platform. As phase 1 of the restoration of the Group's business operation, with financial support made available by the Investor, the Group via Trendy Leader and Highest Rich resurrected some food trading businesses in October 2009. Phase 2 of the restoration of business operations is represented by the acquisition of Orient Legend whereby the Company, through Pacific Prosper, entered into the sale and purchase agreement on 22 April 2010 to acquire the entire issued share capital of Orient Legend, which is principally engaged in the trading of frozen food and food processing. The acquisition of Orient Legend completed on 4 October 2010. In order to enhance value-added services and improve the profitability of the Group, in April 2010, Trendy Leader, through the Processing Agreement, commenced working relationship with JM Kings Food, which owns a sizeable processing plant located in Jiangmen, Guangdong Province, the PRC, to out-source their food processing to JM Kings Food. Pacific Prosper, a

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wholly-owned subsidiary of the Company, entered into the Sincere Gold Agreement to intensify and strengthen the value-added services of the Group through the Jiangmen processing plant owned by JM Kings Food. Pursuant to the arrangements under the Sincere Gold Agreement, Pacific Prosper has full rights and absolute discretion to take up orders from any customers and utilise all the assets owned by Sincere Gold Companies. In addition, Pacific Prosper has the right to use the licences and permits owned by JM Kings Food to export/ship the processed finished products to overseas, and use the brands currently owned/used by the Sincere Gold Companies. The Company considered that after completion of the Sincere Gold Agreement, with the in-house processing capabilities and the synergy effects generated from the business integration, the Group will be in a better position to capture more market opportunities with higher profit margin. This represents the phase 3 restoration of business operations of the Group.

Set out below are the financial information of the Group as extracted from the Annual Report 2011:

Table 1: Financial highlights of the Group

	Year ended 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)
Revenue	730,660	144,006
Profit from operations	15,416	6,180
Profit/(loss) for the year attributable to owners of the Company	2,273	(4,277)
	As at 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)
Total assets	107,966	62,968
Total liabilities	(466,425)	(437,179)
Net liabilities	(358,459)	(374,211)

We note from the Annual Report 2011 that the Company's auditor has given a "disclaimer of opinion" on the consolidated financial statements of the Group and stated, among others, "However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis." As shown on Table 1 above, for the year ended 31 December 2011, the Group recorded a turnover of approximately RMB730.66 million (2010: approximately RMB144.01 million), representing an increase of approximately 407.37%. The Company's profit from operations for the year ended 31 December 2011 was approximately

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RMB15.42 million (2010: profit of approximately RMB6.18 million), representing an increase of approximately 149.51%. Profit for the year ended 31 December 2011 attributable to owners of the Company was approximately RMB2.27 million (2010: loss of approximately RMB4.28 million), recording an increase of approximately RMB6.55 million. As stated in the Annual Report 2011, the improvement in financial performance of the Group was mainly due to increase in contribution from Orient Legend which became a subsidiary of the Group in October 2010 as well as the increase in turnover from sales of food products to North America, Hong Kong and other South-East Asian countries from the food processing business of the Group. With the increase in demand for frozen food products from the PRC customers, the sales volume of Orient Legend increased substantially in 2011 with turnover, on a full year comparison basis, increased by almost 3 times to approximately RMB639.00 million in 2011.

As at 31 December 2011, the Group had consolidated net liabilities of approximately RMB358.46 million (2010: approximately RMB374.21 million). The Group's liabilities were mainly bank and other borrowings and a claim lodged by Deutsche Bank in relation to the early termination of the Swap.

Reasons for entering into the Restructuring Agreement

On 5 November 2008, the Company announced that Deutsche Bank, as a result of the early termination of the Swap, claimed against the Company a total amount of US\$15,927,075 (equivalent to approximately RMB100,741,993) plus accrued interest. At the request of the Company, the Shares were suspended from trading on the Stock Exchange on 15 December 2008, pending the release of an announcement in relation to price sensitive information of the Company. After the Suspension, the whereabouts of Mr. Yeung (a former executive Director and the former chairman of the Company and a controlling Shareholder) and Mr. Yang Le (a former executive Director and the son of Mr. Yeung) could not be confirmed. As repeated attempts to contact Mr. Yeung and Mr. Yang Le were unsuccessful and the Board had difficulties in exercising the authority and control of the Company over the PRC Subsidiaries without Mr. Yeung and Mr. Yang Le's assistance since they were the legal representatives of the PRC Subsidiaries and they have illegally possessed the properties of the PRC Subsidiaries, including but not limited to, the company chops and statutory certificates of the PRC Subsidiaries, therefore the Board decided to place the Company in provisional liquidation to preserve the Company's assets and investigate into the affairs and financial condition of the Group. On 6 and 7 January 2009, the application for the appointment of the Provisional Liquidators and a winding up petition were presented to and filed with the Hong Kong Court by the Company respectively, of which the hearing of such petition has been further adjourned to 16 July 2012. Subsequently, Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai, both of Ernst & Young Transactions Limited, were appointed by the Hong Kong Court as the Provisional Liquidators to take control and preserve the assets of the Group. Since their appointment, the Provisional Liquidators have been investigating into the affairs of the Group and taken all necessary actions including, among others, taking the PRC Legal Actions to seek to regain control of the PRC Subsidiaries

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and to preserve the assets of the Group. However, the PRC Legal Actions met with immense resistance from Mr. Yeung and Mr. Yang Le. Although the control of the Group was assumed by the Provisional Liquidators in early 2009, books and records of the Group were hardly recoverable making it impossible for the Group to consolidate the results of the PRC Subsidiaries, thus the Company deconsolidated the financial results, assets and liabilities and cash flows of the PRC Subsidiaries from the consolidated financial statements of the Group from 1 July 2008. In addition, due to the loss of control of the PRC Subsidiaries, the business operations and the track records of the Group came to a disruptive halt as they were the only operating entities of the Group. In view of the uncertainties on whether any of the PRC Subsidiaries could be recovered, on 30 July 2009, the Company, the Provisional Liquidators, the Investor and Mr. Huang entered into the Exclusivity Agreement with the aim to restructuring of the Company. Following entering into the Exclusivity Agreement, Supreme Wit and the Investor entered into the Working Capital Facility Agreement, pursuant to which up to HK\$70 million of the Working Capital Facility was provided by the Investor to enable the Group to resume its business operations.

Trading in the Shares on the Stock Exchange has been suspended since 15 December 2008. Provisional Liquidators were appointed by the Hong Kong Court on 6 January 2009. The Provisional Liquidators appointed Asian Capital as the financial adviser to the Company on 5 February 2009 to assist the Provisional Liquidators in identifying potential investors with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange. On 12 March 2009, the Stock Exchange sent a letter to the Company stating that in view of the prolonged suspension of trading in the Shares, the delisting procedures set out in Practice Note 17 to the Listing Rules applied to the Company and required the Company to submit a viable resumption proposal to address certain conditions, which were stated in the Company's announcement dated 26 March 2009. The Provisional Liquidators and Asian Capital used their best endeavours to source for potential investors with interest in the restructuring of the Company. Consequently, the Proposed Restructuring had been accepted by the Provisional Liquidators. Given the time constraints, the Company was unable to submit the Resumption Proposal by 11 September 2009 and the Company was placed into the second stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules on 18 September 2009. By a letter dated 9 April 2010 from the Stock Exchange, the Company was placed into the third stage of delisting procedures pursuant to Practice Note 17 to the Listing Rules. The Stock Exchange announced this matter on 21 April 2010. The Company had to submit a viable resumption proposal 10 business days before 20 October 2010, i.e. by the end of the third stage of delisting procedures. On 6 October 2010, the Resumption Proposal was submitted to the Stock Exchange by Asian Capital on behalf of the Company for the purpose of seeking the Resumption. However, the Company announced on 15 November 2010 that the Listing Committee of the Stock Exchange considered that the Resumption Proposal had not satisfactorily demonstrated sufficiency of operation or assets as required under Rule 13.24 of the Listing Rules and decided the listing of the Shares be cancelled. On the same day, the Company filed an application to the Listing (Review) Committee of the

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Stock Exchange to seek a review of the above decision made by the Listing Committee. It was turned out that the Listing (Review) Committee decided to uphold the decision of the Listing Committee and the Stock Exchange would proceed with the delisting of the Company, as announced by the Company on 28 March 2011. The Company filed an application to the Listing Appeals Committee on 28 March 2011 to seek a review of the decision made by the Listing (Review) Committee. After considering the Resumption Proposal, the Listing Appeals Committee issued the Decision Letter to the Company agreeing in principle that the trading in the Shares will be resumed subject to the Company's compliance with the Resumption Conditions by 30 March 2012. In order to fulfill the Resumption Conditions with an aim to seeking the resumption of trading in the Shares, on 5 January 2012, the Company, the Provisional Liquidators, the Investor and the Guarantor entered into the Restructuring Agreement. As the Company was not be able to comply with the Resumption Conditions as set out above by the deadline imposed by the Stock Exchange, the Company has made an application to the Listing Division to seek and the Listing Division has granted additional four months to fulfill the Resumption Conditions, i.e., on or before 31 July 2012. As set out in the section headed "Expected Timetable" in the Circular, it is expected that the Company will not be able to fulfill all the Resumption Conditions on or before 31 July 2012, the Company will make an application to the Listing Division to seek a further extension of the deadline from 31 July 2012 to 30 September 2012. The Listing Division may or may not grant such further extension.

Given the financial situation of the Group and the willingness of the Investor to finance the Group, the Provisional Liquidators and the Directors consider that the entering into the Restructuring Agreement will help facilitate compliance of the Resumption Conditions, and it is in the interests of the Company and the Shareholders as a whole to issue the Creditors Shares in order to discharge all liabilities of and claims against the Company under the Scheme, and at the same time to raise funds by means of the issue of the Offer Shares and the Subscription Shares. The Open Offer and the Share Subscription will introduce new investors to the Company, strengthen the financial position of the Group and relieve the indebtedness level of the Company. It will also provide the Group with new funds to enhance its existing business operations and flexibility to make investments in new acquisitions or business ventures when suitable opportunities arise in the future. In view of the latest audited net liabilities of the Group of approximately RMB358.46 million as at 31 December 2011, if the Company fails to implement the Proposed Restructuring, it is likely that the Company would be delisted from the Stock Exchange and the Shareholders will be unlikely to receive any return from the winding-up of the Company.

Having considered the factors above, we concur with the Directors and the Provisional Liquidators' view that the entering into the Restructuring Agreement is in the interests of the Company and the Shareholders as a whole.

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Your attention is drawn to the section headed “Decision Letter and continued suspension of trading in Shares” in the Board Letter. As stated therein, the Resumption is conditional upon a number of Resumption Conditions that the Company has yet to fulfill. The Independent Shareholders should note that the despatch of the Circular does not imply or otherwise indicate whether Resumption will or will not take place.

2. The terms of the Restructuring Agreement

2.1 Capital Restructuring

As stated in the Board Letter, as at the Latest Practicable Date, the existing authorised share capital of the Company was HK\$100,000,000, divided into 2,000,000,000 Shares of HK\$0.05 each, of which 1,185,914,889 Shares were issued and credited as fully paid, in the amount of HK\$59,295,744.45.

Under the Restructuring Agreement, it is proposed that the Capital Restructuring will be put forward to the Shareholders for their approval at the SGM. The Capital Restructuring will entail the Capital Reduction, the Capital Cancellation, the Share Consolidation, an Increase in Authorised Share Capital and the Share Premium Reduction, details of which are set out in the sub-sections headed “Capital Restructuring”, “Effect of the Capital Restructuring” and “Reasons for the Capital Restructuring” in the Board Letter.

We note from the Board Letter that the passing of shareholders’ resolution to approve the Capital Restructuring is one of the Conditions Precedent to the Restructuring Agreement and completion of the arrangement for the Capital Restructuring is one of the Resumption Conditions as set out in the Decision Letter. In other words, the Capital Restructuring must be implemented if the transactions contemplated under the Restructuring Agreement and the Resumption are to take place. In addition, completion of the Capital Restructuring is one of the conditions precedent for the issue of the Subscription Shares, the Offer Shares and the Creditors Shares, the proceeds of which will be applied to the discharge of the Company’s liabilities and as general working capital for the business operations of the Group. The Capital Restructuring will provide the Company with the flexibility to accommodate issues of the New Shares in the future when necessary.

We also note that pursuant to the Share Premium Reduction, the entire amount standing to the credit of the share premium of the Company as at Completion, which amounted to approximately RMB300 million as at 31 December 2011, will be reduced and applied to set off part of the accumulated losses of the Company which amounted to approximately RMB727.96 million (equivalent to approximately HK\$818.05 million) as at 31 December 2011, or in a manner otherwise permitted by the Companies Act.

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While the structure of the Capital Restructuring, including the basis of the Share Consolidation, the board lot size and the structure of the Open Offer under the Proposed Restructuring will result in odd lots to the existing Shareholders, it is noted that upon the Resumption, matching service on a best effort basis will be provided to Shareholders who wish to top-up or sell their shareholdings of odd lots of the New Shares, which, in our view, helps alleviate the impact of such effect to the existing Shareholders. Given the aforesaid measure and the reasons for entering into the Restructuring Agreement as discussed above, we are of the view that the effect of odd lots to the existing Shareholders is acceptable so far as the Independent Shareholders are concerned.

We note that the existing board lot size is 5,000 Shares and it will become 5,000 New Shares after completion of the Capital Restructuring. Immediately after the Capital Reduction becoming effective, every 80 Shares of HK\$0.000125 each will be consolidated into one New Share of HK\$0.01 each. The Share Consolidation will result in 0.5 fractional New Shares to each of the existing Shareholders who hold any odd multiples of the board lot, for example, 5,000 Shares (one board lot), 15,000 Shares (three board lots) and so on, and none to those existing Shareholders holding even multiples of the board lot, for example, 10,000 Shares (two board lots), 20,000 Shares (four board lots) and so on, assuming all the existing Shareholders are holding full board lot(s). As advised by the Provisional Liquidators and mentioned in the Board Letter, all fractional New Shares will be aggregated and, if possible, sold for the benefits of the Company. Having considered that (i) 0.5 fractional New Shares to each of the existing Shareholders who hold any odd multiples of board lot is minimal; (ii) the benefits of implementation of the Capital Restructuring to the Group; (iii) the net assets of the Group and net assets per Share would turnaround from negative to positive upon Completion according to the “Unaudited pro forma financial information of the Group” set out in Appendix III to the Circular; and (iv) all fractional New Shares will be aggregated and, if possible, sold for the benefits of the Company, we are of the view that the fractional New Shares to the existing Shareholders is acceptable so far as the Independent Shareholders are concerned.

Having considered that (i) passing of shareholders’ resolution to approve the Capital Restructuring is one of the Conditions Precedent to the Restructuring Agreement and completion of the arrangement for the Capital Restructuring is one of the Resumption Conditions as set out in the Decision Letter; (ii) it will enable the re-capitalisation of the share capital of the Company through the issue of New Shares; (iii) the accumulated losses of the Company will be reduced substantially; (iv) the measure in place to alleviate the effect of odd lots as a result of, among others, the structure of the Capital Restructuring; and (v) the number of fractional New Shares to the existing Shareholders is minimal and the benefits of implementation of the Capital Restructuring to the existing Shareholders outweigh the effect of the fractional New Shares, we are of the view that the Capital Restructuring is fair and reasonable to the Independent Shareholders.

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2.2 *The Open Offer and the Share Subscription*

a) Terms of the Open Offer

As stated in the Board Letter, pursuant to the Restructuring Agreement, subject to the Capital Restructuring becoming effective, the Company will take such steps as are necessary to implement the Open Offer on the basis of seven (7) Offer Shares for every one (1) New Share held on the Open Offer Record Date by the Qualifying Shareholders. A total of 103,767,552 Offer Shares will be allotted and issued by the Company to the Qualifying Shareholders at the Offer Price of HK\$0.5622 for each Offer Share and the gross proceeds raised via the issue of the Offer Shares will be approximately HK\$58,338,000.

The number of 103,767,552 Offer Shares represents:

- (i) approximately 8.8% of the existing issued share capital of the Company;
- (ii) approximately 700.0% of the issued share capital of the Company upon completion of the Capital Restructuring;
- (iii) approximately 87.5% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares;
- (iv) approximately 26.9% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares and the Subscription Shares; and
- (v) approximately 25.9% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares.

The Qualifying Shareholders will not be entitled to subscribe for any Offer Share in excess of their respective assured entitlements. Considering that each Qualifying Shareholder will be given an equal and fair opportunity to participate in the Company's future development by subscribing for their entitlements under the Open Offer, we concur with the view of the Provisional Liquidators and the Directors that the Company will not be justified in making additional effort and incurring additional costs to administer the excess application procedures.

In view of (i) the Offer Price being the same as the Subscription Price, i.e. the Share price to be paid by the Qualifying Shareholders is not less favourable than that to be paid by the Investor, should they wish to participate in the growth of the Restructured Group by taking up the Offer

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Shares to be offered to them; (ii) each Qualifying Shareholder will be given an equal opportunity to participate in the Company's future development by subscribing for his/her/its entitlements under the Open Offer; (iii) the significant net liabilities of the Company as at 31 December 2011; (iv) the urgent need to satisfy the Company's financial obligations; and (v) the Open Offer, being an efficient way for the Company to raise capital so as to discharge or waive; or compromise and discharge the Claims in a timely manner and at the same time to enlarge the share capital and shareholder base of the Company, we are of the view that the Open Offer, including the Offer Price, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

b) Terms of the Share Subscription

As stated in the Board Letter, under the Restructuring Agreement, subject to the fulfilment of the Conditions Precedent, the Investor agreed to subscribe for and the Company agreed to issue and allot 266,830,850 Subscription Shares at the Subscription Price of HK\$0.5622 per Subscription Share for a total consideration of approximately HK\$150 million. The number of 266,830,850 Subscription Shares represents:

- (i) approximately 22.5% of the existing issued share capital of the Company;
- (ii) approximately 1,800.0% of the issued share capital of the Company upon completion of the Capital Restructuring;
- (iii) approximately 225.0% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares;
- (iv) approximately 69.2% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares and the Subscription Shares; and
- (v) approximately 66.7% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares.

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c) The Offer Price and the Subscription Price

The Offer Price and the Subscription Price being the same at HK\$0.5622 for each of the Offer Shares and the Subscription Shares represent:

- (i) a discount of approximately 97.6% to the theoretical closing price of HK\$23.6 per share as adjusted for the effect of the Capital Restructuring, in particular, the Share Consolidation of every 80 issued Shares into one New Share, based on the closing price of HK\$0.295 per Share as quoted on the Stock Exchange on the Last Trading Day, being the last full trading day immediately before the suspension of trading in the Shares;
- (ii) a discount of approximately 97.5% to the average theoretical closing price of HK\$22.64 per share as adjusted for the effect of the Capital Restructuring based on the average closing price of HK\$0.283 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 97.5% to the average theoretical closing price of HK\$22.68 per share as adjusted for the effect of the Capital Restructuring based on the average closing price of HK\$0.284 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and
- (iv) a premium of approximately HK\$30.14 over the audited consolidated net liabilities per New Share of approximately HK\$29.57 as at 31 December 2011 (based on the Company's audited consolidated net liabilities of approximately HK\$438.4 million as at 31 December 2011 and 14,823,936 New Shares in issue upon the Capital Restructuring becoming effective).

The unaudited pro forma net tangible assets value per Offer Share as at 31 December 2011 is approximately HK\$0.355 (equivalent to approximately RMB0.29) per share (based on the unaudited pro forma adjusted consolidated net tangible assets being approximately HK\$140,605,000 (equivalent to approximately RMB114,963,000) as at 31 December 2011 as if the Proposed Restructuring had been completed on 31 December 2011 as set out in "Unaudited Pro Forma Financial Information of the Group" in Appendix III to the Circular and number of New Shares being 400,426,274 after the Capital Restructuring and as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares).

The Offer Price and the Subscription Price were determined after arm's length negotiations between the Company and the Investor having regard to (i) the fact that the Provisional Liquidators have been appointed; (ii) the long suspension of trading in the Shares on the Stock Exchange since 15

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December 2008; (iii) the prevailing stock market conditions; (iv) the prospects of the business operations of the Group; and (v) the audited consolidated net liabilities per New Share in issue of approximately HK\$29.57 assuming the Capital Restructuring becoming effective on 31 December 2011.

As the terms of different restructuring proposals are subject to various factors such as nature of business and the specific state of affairs of each of the companies concerned as well as the severity of the financial and operational problems, we do not consider that it is meaningful to assess the fairness and reasonableness of the terms of the Open Offer and the Share Subscription by making reference to those of other companies with restructuring proposals. Given that the Shares were suspended from trading for more than three years, we consider that the closing price of the Shares prior to the suspension of trading is not reflective of the current financial condition and value of the Company and will not provide a fair basis for the evaluation of the Subscription Price.

In view of (i) the Subscription Price being the same as the Offer Price, i.e. the Share price to be paid by the Investor is not more favourable than that to be paid by the existing Shareholders should they wish to participate in the growth of the Restructured Group by taking up the Offer Shares to be offered to them; (ii) the significant net liabilities of the Company as at 31 December 2011; (iii) the urgent need to satisfy the Company's financial obligations; and (iv) the Share Subscription, being an efficient way for the Company to raise capital so as to discharge or waive; or compromise and discharge the Claims in a timely manner and at the same time to enlarge the share capital and shareholder base of the Company, we are of the view that the Share Subscription, including the Subscription Price, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

d) Use of proceeds from the Open Offer and the Share Subscription

The gross proceeds from the Open Offer and the Share Subscription is approximately HK\$208 million (including approximately HK\$58 million and approximately HK\$150 million to be raised from the Open Offer and the Share Subscription respectively). Pursuant to the Restructuring Agreement, the Pre-Completion Payments will be set off against the monies payable for the Share Subscription by the Investor upon Completion, it is estimated that the net proceeds from the Open Offer and the Share Subscription will be approximately HK\$120 million after deducting the Pre-Completion Payments (assuming the amount of the Pre-Completion Payments will be approximately HK\$88 million) will be applied as follows:

- (i) approximately HK\$62 million is to settle debts owed to the Creditors (including Creditors with preferential claims) under the Scheme pursuant to the Restructuring Agreement;

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- (ii) approximately HK\$1.8 million for the payments of commission for the Open Offer; and
- (iii) approximately HK\$56 million for the general working capital of the Restructuring Group, among which approximately HK\$15 million will be used as the working capital for the products distribution business through the supermarket channel in the PRC.

Completion of each of the Open Offer and the Subscription are one of the Resumption Conditions and one of the Conditions Precedent. In the event that the Open Offer and/or the Share Subscription is not completed, the Proposed Restructuring will not proceed. Given the aforesaid and that (i) the resumption of trading in the Shares upon Completion of the Proposed Restructuring is in the interests of the Company and the Shareholders; and (ii) the proceeds from the Open Offer and the Subscription will provide funding for cash settlement to the Creditors and working capital to the Restructured Group, we consider that the Open Offer and the Share Subscription are in the interests of the Company and the Shareholders as a whole.

e) Underwriting Agreement

The Company and the Underwriter entered into the Underwriting Agreement on 9 July 2012 pursuant to which the Underwriter will fully underwrite the Offer Shares. Details of the Underwriting Agreement are set out in the sub-section headed “Open Offer” in the Board Letter. Save for being engaged as the financial adviser to the Company, the Underwriter, is a third party independent of the Company or any of the Directors, chief executive, substantial shareholders of the Company or any of their respective associates or the Investor, its ultimate beneficial owner or parties acting in concert with any of them. The maximum number of the Untaken Shares underwritten by the Underwriter is 103,767,552 Offer Shares. The Underwriter will receive an underwriting commission of 3% of the aggregate subscription price for the Offer Shares.

In order to assess the fairness and reasonableness of the terms of the Underwriting Agreement, we have tried to identify companies which (i) had undergone restructuring transactions including the offer of shares by way of open offers to its existing shareholders (with independent third party underwriters); (ii) had prolonged suspension of trading in the shares of these companies and with the respective restructuring completed during the period from 1 January 2011 to the Latest Practicable Date; and (iii) had been placed under provisional liquidation. We have identified two comparable companies namely (i) Tack Fiori International Group Limited (formerly known as Tack Fat Group International Limited) (stock code: 928) (“Tack Fiori”) of which shares were suspended since 30 July 2008 and trading was resumed on 9 August 2011; and (ii) Sunlink International Holdings Limited (stock code: 2336) (“Sunlink”) of which shares were suspended since 2 December 2008

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and trading was resumed on 28 February 2012. We consider that the list of comparables is exhaustive based on the selection criteria as set out above. Principal terms of the underwriting agreement as set out in Tack Fiori's circular dated 28 June 2011 and Sunlink's circular dated 23 December 2011 are set out as below:

Table 2: Analysis of the comparable companies

	Tack Fiori	Sunlink	The Company
Basis of open offer	339 offer shares for every 5 shares held on the record date	2 offer shares for every 1 new shares held on the record date	7 Offer Shares for every 1 New Share held on the Open Offer Record Date
Underwriting commission	2.75%	3%	3%
Underwriting amount (being the multiple of the underwritten shares and the subscription price)	Approximately HK\$150 million	Approximately HK\$37.30 million	Approximately HK\$58.34 million
Underwriter	Independent third party	Independent third party	Independent third party

We note that the underwriting commission to be paid to the Underwriter is slightly higher than and is equal to that in the case of Tack Fiori and that in case of Sunlink respectively. Having considered that (i) the current volatility of the stock market; (ii) the underwriting commission is within the range of the comparable companies; and (iii) the underwriting amount is significantly lower than that in the case of Tack Fiori, we are of the view that the terms of the Underwriting Agreement including the underwriting commission are fair and reasonable.

f) Sub-underwriting arrangement

The Underwriter issued the Sub-underwriting Letter to the Investor dated 9 July 2012 for the Investor to accept to act as a sub-underwriter to subscribe for the Untaken Shares.

As advised by the Provisional Liquidators, the intention of the underwriting is to ensure that the Offer Shares could be placed to a wider range of investors. However, due to the current volatile market conditions, the Underwriter has not yet been able to identify other suitable sub-underwriters. Nevertheless, the Underwriter will continue to leverage on its network to identify and procure other potential independent investors to subscribe for the Untaken Shares. On the other hand, if no such other potential independent investors are identified, there is a possibility that the Investor may have to subscribe for the Offer Shares in full and be interested in approximately 92.6% of the issued share capital of the Company as

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enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares. In such event, the Investor is required to enter into placing agreement(s) with licensed placing agent(s) to place down certain portion of the Offer Shares to other independent investors to meet the Public Float requirement.

Regarding the current volatile market conditions, we note that the Hang Seng Index fluctuated vastly for the period from 3 January 2012 to the Latest Practicable Date. It increased from 18,877 points as at 3 January 2012 to the highest of 21,680 points as at 29 February 2012, representing an increase of approximately 14.85% and was on a downward trend from that date onwards, reaching 19,428 points at the Latest Practicable Date which represented a decrease of approximately 11.59%, and the global economy has been plagued by the debt crisis in Europe. Therefore, we concur with the view of the Provisional Liquidators that the current market conditions are volatile which resulted in the difficulties faced by the Underwriter in identifying other suitable sub-underwriters in a timely manner.

Having considered (i) the volatile current market conditions; (ii) the Underwriter will continue to leverage on its networks to identify and procure other potential independent investors to subscribe for the Untaken Shares; and (iii) in the event that the Investor is to subscribe for the Offer Shares in full, the Investor is required to further enter into placing agreement(s) to place down certain portion of the Offer Share to other independent investors to meet the Public Float requirement, we are of the view that the sub-underwriting arrangement is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

2.3 Group Reorganisation

As set out in the Board Letter, after many attempts made by the Provisional Liquidators, the Company has still not been able to exert control and authority over the PRC Subsidiaries since the appointment of the Provisional Liquidators, as such, financial results of the PRC Subsidiaries had been deconsolidated from the Group's financial statements since 1 July 2008. At present, the Company's existing business operations are mainly carried on by the New Subsidiaries, whereas Smart Dragon, First China and First China (HK) do not have any business operations except for being as the holding companies of the PRC Subsidiaries. In order to streamline the organisation structure of the Group and to facilitate the implementation of the Proposed Restructuring and the future expansion of the Company, it is proposed that the Company will transfer the entire share capital/equity interests of the Excluded Companies, which are directly or indirectly held by the Company, and rights and obligations of the Transferred Claims to Newco 2 or such other nominee of the Scheme Administration for a nominal consideration of HK\$1.00. After such transfer, should there be any recovery from the Excluded Companies, the Scheme Administrators may in their sole and absolute discretion dispose of the Newco 2 or realize or sell the assets of the Excluded Companies for the benefit of the Creditors under the Scheme. The

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Group Reorganisation was sanctioned by Hong Kong Court on 16 May 2012. Upon completion of the Group Reorganisation, only the New Subsidiaries will remain in the Restructured Group, namely, Supreme Wit, Highest Rich, Pacific Prosper, Trendy Leader and Orient Legend. All the Excluded Companies will cease to be subsidiaries or associated companies of the Company and their financial results will no longer be consolidated into the Group's financial statements upon completion of the Group Reorganisation.

Having taken into account that (i) the Company has still not been able to exert control and authority over the PRC Subsidiaries since the appointment of the Provisional Liquidators, whether the control of the PRC Subsidiaries can be regained by the Group is uncertain and the latest financial positions of the PRC Subsidiaries are uncertain; and (ii) the Group Reorganisation forms part of the Scheme to eliminate all claims against, and the liabilities of, the Company, we are of the view that the Group Reorganisation is in the interests of the Company and the Shareholders as a whole.

2.4 The Scheme

As disclosed in the Board Letter, as at the Latest Practicable Date, to the best knowledge of the Provisional Liquidators and based on the available books and records of the Company, the Company has 34 Creditors with the estimated amount of claims against, and the liabilities of, the Company, being approximately HK\$405 million under the Scheme. Pursuant to the Restructuring Agreement, it is proposed that the Scheme will be implemented. Upon the Scheme having become effective:

- (i) the Company will pay a cash sum of HK\$62 million after deducting relevant costs out of proceeds from the Share Subscription to the Creditors with claims admitted by the Scheme Administrators on a pro-rata basis under the Scheme;
- (ii) the Company will issue 14,823,936 Creditors Shares, representing approximately 3.7% of the issued share capital of the Company as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares, for the benefit of the Creditors. The Creditors Shares will be issued by the Company to the Scheme Administrators or Newco 1 or such other their nominee(s), and the net proceeds from the sale of the Creditor Shares after deducting relevant costs will be paid to the Creditors with claims admitted by the Scheme Administrators on a pro-rata basis under the Scheme; and
- (iii) the Company will transfer the entire equity interests/share capital of the Excluded Companies, which are directly or indirectly held by the Company, and the rights and obligations of the Transferred Claims to Newco 2 or such other nominee of the Scheme Administrators at a nominal value of HK\$1.00. After such transfer, should there be any recovery from the Excluded Companies with the benefit of the

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conditions with the Scheme. The Scheme Administrators may in their sole and absolute discretion disposal of Newco 2 or realize or sell the shares/assets of the Excluded Companies for the benefit of the Creditors under the Scheme.

Considering that (i) it is necessary for the Company to implement measures to repay or restructure its outstanding indebtedness given its financial difficulties; (ii) the Company has still not been able to exert control and authority over the PRC Subsidiaries since the appointment of the Provisional Liquidators, whether the control of the PRC Subsidiaries can be regained by the Group is uncertain and the latest financial positions of the PRC Subsidiaries are uncertain; (iii) the estimated amount of claims against, and the liabilities of, the Company, being approximately HK\$405 million under the Scheme will be compromised and discharged in full for and is significantly higher than the sum of the cash payment of HK\$62 million and the issue of 14,823,936 Creditors Shares which is valued at approximately HK\$8.33 million (assuming all of them are sold at the price of HK\$0.5622, being the Offer Price and the Subscription Price, by the Scheme Administrators), to be distributed in accordance with the terms of the Scheme; and (iv) the Company would recognise a gain of approximately RMB314.34 million following the Scheme becoming effective according to the “Unaudited pro forma financial information of the Group” set out in Appendix III to the Circular, we are of the view that the Scheme is in the interests of the Company and the Shareholders as a whole.

3. The Special Deal

As stated in the Board Letter, as at the Latest Practicable Date, Mr. Yeung is the registered shareholder of the entire share capital of Regal Splendid, which in turn is the registered shareholder of 416,665,000 Shares, representing approximately 35.13% of the issued share capital of the Company. On 20 January 2010, Sun Hung Kai Structured Finance Limited and Sun Hung Kai Investment Services Limited obtained a charging order against Regal Splendid, which had pledged its holding of the Charged Shares and defaulted the loan owed to Sun Hung Kai Structured Finance Limited and Sun Hung Kai Investment Services Limited. Pursuant to the order of Hong Kong Court dated 16 March 2012, provisional liquidators were appointed to take control of Regal Splendid, and they are empowered to, among others, exercise Regal Splendid’s rights in the Charged Shares in the best interests of creditors of Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder’s meeting of the Company. The winding up order has been issued on 30 May 2012 by the Hong Kong Court. Based on the books and records available to the Directors and the Provisional Liquidators, the Company owes approximately HK\$68 million, which arises from transactions over the years, to Mr. Yeung. Therefore, Mr. Yeung is a potential Creditor under the Scheme.

Under the Scheme, the indebtedness owed to the Creditors will be settled partially by proceeds from the sales of the Creditors Shares and partially by the Cash Settlement which will be funded by the proceeds from the Share Subscription. The Creditors Shares will be issued by the Company to Newco 1 or such other nominee of the

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Scheme Administrators which will then be sold by the Scheme Administrators in their absolute discretion for the benefit of the Creditors. In the event that Mr. Yeung files claims against the Company and such claim is not disputed by the Provisional Liquidators and/or the Scheme Administrators and subject to adjudication, adjustment and relevant costs involved, it is estimated that approximately HK\$9.5 million, being the apportioned part of the sale proceeds of the Creditors Shares and the Cash Settlement, together with apportioned part of the realization of the assets of the Excluded Companies, if any, will be paid to Mr. Yeung under the Scheme. The settlement with Mr. Yeung under the Scheme will constitute a special deal under Note 5 to Rule 25 of the Takeovers Code. As at the Latest Practicable Date, Mr. Yeung has not filed any claim to the Provisional Liquidators. The Provisional Liquidators have identified that the Company has potential claims against Mr. Yeung in relation to certain inter-company loans due from the PRC Subsidiaries to the Company as at 31 December 2011 and the distributions of dividend by the Company to the Shareholders from 2002 to 2008. However, these potential claims require further investigations and assets search as well as are subject to legal advice. Pursuant to an order of Hong Kong Court dated 16 May 2012, upon the Scheme becoming effective, the rights and obligations of all cause(s) of actions and claim(s), which the Company is involved as at Completion, will be transferred to special purpose vehicles of the Scheme Administrators for a nominal consideration of HK\$1.00 for the benefit of the Creditors under the Scheme. Pursuant to the terms of the Scheme, HK\$8 million will be reserved from the scheme fund to finance the necessary investigations, legal advices and actions. After the Scheme becomes effective, the Scheme Administrators will consider carrying out legal actions against Mr. Yeung in relation to the aforesaid inter-company loans and the distributions of dividend. As advised by the Provisional Liquidators, the Provisional Liquidators/Scheme Administrators would consider rejecting Mr. Yeung's claim against the Company under the Scheme upon the receipt of such filing from Mr. Yeung if Mr. Yeung cannot provide evidence to substantiate his claim and would consider setting off his claim against the missing funds mentioned below subject to availability of the missing funds information. Mr. Yeung, being one of the 34 creditors, is included in the Scheme because such arrangement is one of the legal requirements to facilitate the implementation of the Scheme. The Company has taken actions to file claim against Mr. Yeung for the missing funds, damages and compensation. On 2 May 2012, the Company filed a protective Writ of Summons to the Hong Kong Court against Mr. Yeung for, inter alia, a claim of not less than HK\$84,024,846 which relates to the missing funds of the Company and a claim for damages and/or compensation, for breach of trust and fiduciary and other duties owed by Mr. Yeung to the Company. After issue of the protective Writ of Summons, the Company would have 12 months' time from 2 May 2012 to serve the Writ of Summons.

Save for Mr. Yeung's potential claim which is classified as disputed claims under the Scheme as set out above, to the best knowledge and information of the Directors and the Provisional Liquidators, having made all reasonable enquiries, there are no other Creditors who will be allotted the Creditors Shares or be paid the Cash Settlement together with any dividend distributed by or any recovery from the Excluded Companies under the Scheme who are also the Shareholders.

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If the resolution in relation to the Special Deal is not approved by the Independent Shareholders at the SGM and/or the Executive does not give its consent to the Special Deal, the indebtedness owed to Mr. Yeung will not be able to be transferred and settled under the Scheme, and the Company will continue to carry a large sum of indebtedness, which is not in the interests of the Company, the Shareholders and the Investor. As at the Latest Practicable Date, the Executive has not granted his consent to the Special Deal. The Executive has not indicated whether the Special Deal consent will be granted or not, or if granted whether it will be subject to other conditions.

As set out in the section headed “Underwriting Agreement” in the Board Letter, the Company entered into the Underwriting Agreement with the Underwriter in respect of Open Offer. The Underwriter entered into Sub-underwriting Letter with the Investor, who acts as a sub-underwriter in respect of the Open Offer. Therefore, the Underwriter, the Investor and their respective concert parties and associates are considered to be interested in the Open Offer, the Share Subscription and the Whitewash Waiver and the Special Deal, and shall not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM.

Mr. Yeung, his concert parties and associates are considered to be parties interested in and/or involved in the Open Offer, the Share Subscription, the Whitewash Waiver and the Special Deal, and shall, therefore, not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM. However, the voting rights of the Charged Shares have been vested to the provisional liquidators of Regal Splendid according to the order of Hong Kong Court dated 16 March 2012, pursuant to which, the provisional liquidators have been appointed to take control of Regal Splendid, and they are empowered to, among others, exercise Regal Splendid’s rights in the Charged Shares in the best interests of creditors of Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder’s meeting of the Company. The provisional liquidators of Regal Splendid shall abstain from voting in favour of the Open Offer.

Taking into account (i) such arrangement is one of the legal requirements to facilitate the implementation of the Scheme which is part of the Proposed Restructuring and one of the Resumption Conditions; (ii) all claims against the Company will be compromised and discharged upon the Scheme becoming effective; (iii) the indebtedness owed to Mr. Yeung will not be able to be transferred and settled under the Scheme if the Special Deal is not approved; and (iv) the Provisional Liquidators/Scheme Administrators would consider rejecting or setting off Mr. Yeung’s claim against the Company under the Scheme upon the receipt of such filing from Mr. Yeung, we are of the view that the settlement terms are arm’s length transactions on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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4. The Whitewash Waiver

As stated in the Board Letter, immediately upon completion of the Share Subscription, the Investor and its concert parties will be interested in 266,830,850 New Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her entitlement under the Open Offer), representing:

- (i) approximately 1,800.0% of the issued share capital of the Company upon completion of the Capital Restructuring;
- (ii) approximately 69.2% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issued of the Offer Shares and the Subscription Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her entitlement under the Open Offer); and
- (iii) approximately 66.7% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares (assuming all Shareholders are Qualifying Shareholders and have taken up his/her entitlement under the Open Offer).

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Offer Shares on a fully underwritten basis. The Underwriter will procure sub-underwriters to sub-underwrite the Offer Shares, and the Investor may be one of the sub-underwriters to subscribe for all or part of the Offer Shares. The Investor and its concert parties will hold approximately 92.60% of the issued share capital of the Company upon completion of the Capital Restructuring as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares (assuming no Qualifying Shareholders have taken up his/her entitlement under the Open Offer and all the Offer Shares are subscribed by the Investor). In such event, the Investor will take appropriate steps, which may include arrangement with a placing agent, to place down a portion of the New Shares for the Investor to other investors who are independent third parties in order to maintain the Public Float.

Pursuant to Rule 26 of the Takeovers Code and in the absence of the Whitewash Waiver, the Investor and its concert parties would trigger an obligation to make a mandatory general offer for all the shares of the Company other than those already owned or agreed to be acquired by the Investor and its concert parties. In this respect, the Investor has made an application to the Executive under the Takeovers Code for the Whitewash Waiver to relieve it from its obligation to make a mandatory general offer as a result of the completion of the Share Subscription, and such grant will be subject to, among other things, approval of the Independent Shareholders in respect of the Whitewash Waiver at the SGM by way of poll. As the shareholding of the Investor exceeds 50% of the issued share capital of the Company following the completion of the Share Subscription, the Investor may increase its shareholding in the Company without incurring any further obligation to make a general offer under the Takeovers Code.

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As set out in the section headed “Underwriting Agreement” in the Board Letter, the Company entered into the Underwriting Agreement with the Underwriter in respect of Open Offer. The Underwriter entered into Sub-underwriting Letter with the Investor, who acts as a sub-underwriter in respect of the Open Offer. Therefore, the Underwriter, the Investor and their respective concert parties and associates are considered to be interested in the Open Offer, the Share Subscription and the Whitewash Waiver and the Special Deal, and shall not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM.

Mr. Yeung, his concert parties and associates are considered to be parties interested in and/or involved in the Open Offer, the Share Subscription, the Whitewash Waiver and the Special Deal, and shall, therefore, not be eligible to vote on all the relevant resolutions in relation to: (i) the Open Offer; (ii) the Share Subscription; (iii) the Whitewash Waiver; (iv) the Special Deal; and (v) all the relevant transactions contemplated thereunder at the SGM. However, the voting rights of the Charged Shares have been vested to the provisional liquidators of Regal Splendid according to the order of Hong Kong Court dated 16 March 2012, pursuant to which, the provisional liquidators have been appointed to take control of Regal Splendid, and they are empowered to, among others, exercise Regal Splendid’s rights in the Charged Shares in the best interests of creditors of Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder’s meeting of the Company. The provisional liquidators of Regal Splendid shall abstain from voting in favour of the Open Offer.

We note from the Board Letter that Completion is conditional upon, amongst others, (i) the approval of the Whitewash Waiver by the Independent Shareholders; and (ii) the granting of the Whitewash Waiver by the Executive. If the Whitewash Waiver is not to be approved by the Independent Shareholders or granted by the Executive, the transactions contemplated under the Restructuring Agreement cannot proceed which would have a detrimental effect on the implementation of the Scheme and the Resumption Proposal.

Having considered that the approval of the Whitewash Waiver by the Independent Shareholders is one of the Conditions Precedent, we are of the view that the Whitewash Waiver is fair and reasonable and is in the interest of the Company and the Shareholders as a whole as it would allow the Restructuring Agreement and the transactions contemplated thereunder to proceed as proposed.

5. Dilution to the shareholding of the existing Shareholders

Your attention is drawn to the section headed “Effect on shareholding structure of the Company” set out in the Board Letter. We noted that the shareholding of the existing public Shareholders would reduce from approximately 64.87% as at the Latest Practicable Date to approximately 19.22% upon completion of the Capital Restructuring, the Open Offer, the Share Subscription and the issue of the Creditors Shares (assuming all Qualifying Shareholders have taken up his/her entitlement under the Open Offer).

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As stated in the Board Letter, the Provisional Liquidators were appointed on 6 January 2009 and the Petition was filed with the Court on 7 January 2009 to effect the appointment of the Provisional Liquidators. In addition, the Company had consolidated net liabilities of approximately RMB358.46 million (equivalent to approximately HK\$438.40 million) as at 31 December 2011. Having considered that (i) it is in the best interest of the existing Shareholders that the Proposed Restructuring, including but not limited to the Capital Restructuring, the Share Subscription, the Open Offer, the Scheme, the issue of the Creditors Shares, is to be implemented in its entirety so as to avoid the Company being wound-up, a situation where the Creditors would have precedence over the Shareholders in claims over the Company's assets; (ii) the terms of the Open Offer, the Underwriting Agreement and the Share Subscription are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the urgent need to satisfy the Company's indebtedness and the fund raised from the Open Offer and the Share Subscription will provide financial resources for the settlement of the Company's indebtedness and increase the Group's working capital; and (iv) the net assets of the Group would turnaround from negative to positive with contribution by, among others, the fund raised from the Open Offer and the Share Subscription, we are of the view that the dilution effect on the shareholding of the existing Shareholders is acceptable so far as the Independent Shareholders are concerned.

After the issue of the Offer Shares, the Subscription Shares and the Creditors Shares, assuming that no Qualifying Shareholder has taken up his/her entitlement under the Open Offer and the Investor pursuant to the Sub-underwriting Letter has fully subscribed for all the Offer Shares, the public Shareholders will hold approximately 7.41% of the issued share capital of the Company as enlarged by the issue of the Offer Shares, the Subscription Shares and the Creditors Shares. In such event, the Investor will take appropriate steps, which may include arrangement with a placing agent, to place down a portion of the New Shares for the Investor to other investors who are independent third parties in order to maintain the Public Float.

6. Financial effects of the Proposed Restructuring

a) Net assets

According to the "Unaudited pro forma financial information of the Group" set out in Appendix III to the Circular, assuming the Proposed Restructuring had been effective on 31 December 2011, the Group's financial position would improve from net liabilities of approximately RMB358.46 million to net assets of approximately RMB119.95 million which will mainly comprise bank and cash balances.

b) Gearing position

As at 31 December 2011, the Group had total assets of approximately RMB107.97 million and total liabilities of approximately RMB466.43 million. The debt to asset ratio of the Group was approximately 432.00%, being the total liabilities divided by total assets. According to the "Unaudited pro forma financial information of the Group" set out in Appendix III to the Circular, assuming the

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Proposed Restructuring had been completed on 31 December 2011, the Group would have total assets of approximately RMB154.22 million and total liabilities of approximately RMB34.27 million. Accordingly, the debt to asset ratio of the Restructured Group would be reduced to approximately 22.22%.

c) Working capital

As at 31 December 2011, the Group had bank and cash balances of approximately RMB29.59 million and net current liabilities of approximately RMB387.88 million. According to the “Unaudited pro forma financial information of the Group” as set out in Appendix III to the Circular, assuming that the Proposed Restructuring took place on 31 December 2011, the Restructured Group would have bank and cash balances of approximately RMB76.06 million and net current assets of approximately RMB90.74 million. Therefore, the working capital position of the Group will be substantially improved after the Proposed Restructuring.

Shareholders should note that completion of the Transactions does not imply trading in the Shares will be resumed and that trading resumption of the Shares is subject to the fulfilment of all the Resumption Conditions.

RECOMMENDATIONS

Based on the abovementioned principal factors and reasons for the Transactions, and after taking into account that:

- (i) the Group Reorganisation and the Scheme will enable the Group to deal with its outstanding indebtedness in a formal and orderly manner which we consider to be essential to the Group’s survival given its existing financial difficulties;
- (ii) upon Completion, all the Claims against, and liabilities of, the Company (excluding the normal operating liabilities incurred during the ordinary and usual course of business operations of the Group) will be discharged;
- (iii) the Open Offer provides the existing Shareholders an equal opportunity to participate in the Company’s future development;
- (iv) the proceeds from the Open Offer and the Share Subscription will provide the capital needed for the implementation of the Proposed Restructuring and for the Group’s general working capital;
- (v) the likelihood of winding-up the Company if it fails to implement the Proposed Restructuring;
- (vi) Shareholders will be unlikely to receive any return in the event of a winding-up of the Company;

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- (vii) the material uncertainty relating to the going concern basis if the Proposed Restructuring is not successfully implemented;
- (viii) the substantial improvement in the Group's financial position after Completion;
- (ix) the Subscription Price being the same as the Offer Price, i.e. the Share price to be paid by the Investor is not more favourable than that to be paid by the existing Shareholders should they wish to participate in the growth of the Restructured Group by taking up the Offer Shares to be offered to them; and
- (x) the Special Deal arrangement is one of the legal requirements to facilitate the implementation of the Scheme which is part of the Proposed Restructuring and one of the Resumption Conditions and the Provisional Liquidators/Scheme Administrators would consider rejecting or setting off Mr. Yeung's claim against the Company under the Scheme upon the receipt of such filing from Mr. Yeung,

we are of the view that the terms and conditions of the Restructuring Agreement including but not limited to the Capital Restructuring, the Open Offer, the Share Subscription, the issue of Creditors Shares under the Scheme, the Whitewash Waiver, the Special Deal and the Group Reorganisation and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions in relation to the Capital Restructuring, the Open Offer, the Share Subscription, the issue of Creditors Shares under the Scheme, the Whitewash Waiver, the Special Deal and the Group Reorganisation to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Goldin Financial Limited
Billy Tang
Director

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the four years ended 31 December 2011, details of which were extracted from the annual reports of the Company for each of the years ended 31 December 2011, 2010, 2009 and 2008. The consolidated financial statements for the years ended 31 December 2011, 2010, 2009 and 2008 were audited by ANDA CPA Limited. For each of the four years ended 31 December 2011, there was no exceptional item because of size, nature or incidence and no dividend was declared or paid. Disclaimers of opinion were issued by the auditor of the Company in relation to the consolidated financial statements for the years ended 31 December 2011, 2010, 2009 and 2008.

Results of the Group

	For the year ended 31 December			
	2011	2010	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
		<i>(Restated)</i>		
Turnover	730,660	144,006	2,542	478,707
Cost of sales	<u>(710,218)</u>	<u>(136,281)</u>	<u>(2,505)</u>	<u>(271,919)</u>
Gross profit	20,442	7,725	37	206,788
Other income	8,012	1,212	429	6,877
Selling expenses	(1,747)	(523)	–	(5,625)
Administrative expenses	(11,291)	(2,234)	(5,068)	(23,512)
Other operating expenses	–	–	–	(8,796)
Gain arising from a change in fair value of a derivative financial instrument	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,001</u>
Profit/(loss) from operations	15,416	6,180	(4,602)	176,733
Loss on deconsolidation of the subsidiaries and impairment on investment costs and amounts due from deconsolidated subsidiaries	–	–	–	(1,470,704)
Restructuring costs	(3,113)	(3,725)	–	–
Other losses	–	–	–	(86,756)
Finance costs	<u>(7,356)</u>	<u>(5,613)</u>	<u>(9,559)</u>	<u>(13,614)</u>
Profit/(loss) before tax	4,947	(3,158)	(14,161)	(1,394,341)
Income tax expense	<u>(2,674)</u>	<u>(1,119)</u>	<u>–</u>	<u>(47,444)</u>
Profit/(loss) for the year attributable to the owners of the Company	<u>2,273</u>	<u>(4,277)</u>	<u>(14,161)</u>	<u>(1,441,785)</u>
Earnings/(loss) per share attributable to the owners of the Company				
Basic (<i>RMB cents per share</i>)	<u>0.19</u>	<u>(0.36)</u>	<u>(1.19)</u>	<u>(126.83)</u>
Diluted (<i>RMB cents per share</i>)	<u>0.19</u>	<u>(0.36)</u>	<u>(1.19)</u>	<u>(126.83)</u>

Financial position of the Group

	As at 31 December			
	2011	2010	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Non-current assets	29,421	5,444	259	267
Current assets	78,545	57,524	8,949	1,138
Current liabilities	(466,425)	(437,179)	(392,671)	(370,589)
Net current liabilities	(387,880)	(379,655)	(383,722)	(369,451)
Net liabilities	<u>(358,459)</u>	<u>(374,211)</u>	<u>(383,463)</u>	<u>(369,184)</u>

2. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**INDEPENDENT AUDITOR'S REPORT****TO THE SHAREHOLDERS OF FIRST NATURAL FOODS HOLDINGS LIMITED
(Provisional Liquidators Appointed)**

第一天然食品有限公司(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “Company”) set out on pages 25 to 89, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION**1. Opening balances and corresponding figures**

The consolidated financial statements of the Company for the year ended 31 December 2007 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us. There were no satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of the opening balances and corresponding figures shown in the current year's consolidated financial statements.

2. Transactions, income and expense items for the year

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the transactions of the Group for the year ended 31 December 2008. There are no other satisfactory audit procedures that we could adopt to satisfy ourselves that the income and expense items are properly accounted for in the consolidated income statement for the year ended 31 December 2008 and that these items are properly disclosed in the consolidated financial statements.

3. Loss on deconsolidation of the subsidiaries and impairment on investment costs and amounts due from deconsolidated subsidiaries

As explained in note 2 to the consolidated financial statements, 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. In addition, no sufficient evidence has been provided to satisfy ourselves as to the amount of net assets of the subsidiaries deconsolidated. As a result, we are unable to satisfy ourselves as to the loss on deconsolidation of the subsidiaries and the impairment on investment costs and amounts due from deconsolidated subsidiaries of approximately RMB1,470,704,000 for the year ended 31 December 2008 as disclosed in note 11 to the consolidated financial statements.

4. Other losses

No sufficient evidence has been received by us up to the date of this report in respect of whether the other losses of approximately RMB86,756,000 were properly accounted for in the consolidated financial statements for the year ended 31 December 2008.

5. Accruals and other payables

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the accruals and other payables as disclosed in note 30 to the consolidated financial statements of approximately RMB172,455,000 as at 31 December 2008.

6. Financial guarantee liabilities

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the financial guarantee liabilities as disclosed in note 32 to the consolidated financial statements of RMB13,500,000 as at 31 December 2008.

7. Commitments and contingent liabilities

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities as at 31 December 2008.

8. Related party transactions and balances

No sufficient evidence has been provided to satisfy ourselves as to the existence, accuracy and completeness of the disclosures of the related party transactions and balances for the year ended 31 December 2008 as required by Hong Kong Accounting Standard 24 “Related Party Disclosures”.

9. Other disclosures in the consolidated financial statements

No sufficient evidence has been provided to satisfy ourselves as to the accuracy and completeness of the disclosures in relation to the additions of the property, plant and equipment as disclosed in notes 9 and 22 to the consolidated financial statements.

Any adjustments to the figures as described from points 1 to 9 above might have a significant consequential effect on the Group’s results for the two years ended 31 December 2007 and 2008, the Group’s cash flows for the two years ended 31 December 2007 and 2008 and the financial positions of the Group as at 31 December 2007 and 2008, and the related disclosures thereof in the consolidated financial statements.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that a proposal for the resumption of trading in the Company’s shares and the restructuring of the Group (the “Resumption Proposal”) will be submitted to The Stock Exchange of Hong Kong Limited on as soon as practicable.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate.

However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

**DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE
FINANCIAL STATEMENTS**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 22 January 2010

3. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2009**INDEPENDENT AUDITOR'S REPORT****TO THE SHAREHOLDERS OF
FIRST NATURAL FOODS HOLDINGS LIMITED (PROVISIONAL LIQUIDATORS
APPOINTED)**

(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “Company”) set out on pages 26 to 75, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION**1. Opening balances and corresponding figures**

Our audit opinion on the consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2008 (the “2008 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 22 January 2010. Accordingly, we were then unable to form an opinion as to whether the 2008 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2008 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 2009.

Accordingly, no sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the transactions of the Group for the year ended 31 December 2009. There are no other satisfactory audit procedures that we could adopt to satisfy ourselves that the income and expense items are properly accounted for in the consolidated statement of comprehensive income for the year ended 31 December 2009 and that these items are properly disclosed in the consolidated financial statements.

3. Accruals and other payables

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the accruals and other payables of the Group as disclosed in note 28 to the consolidated financial statements of approximately RMB195,349,000 as at 31 December 2009.

4. Financial guarantee liabilities

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the financial guarantee liabilities of the Group as disclosed in note 30 to the consolidated financial statements of RMB13,500,000 as at 31 December 2009.

5. Commitments and contingent liabilities

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities of the Group as at 31 December 2009.

6. Related party transactions

No sufficient evidence has been provided to satisfy ourselves as to the existence, accuracy and completeness of the disclosures of the related party transactions of the Group for the year ended 31 December 2009 as required by Hong Kong Accounting Standard 24 “Related Party Disclosures”.

Any adjustments to the figures as described from points 1 to 6 above might have a significant consequential effect on the Group’s results for the two years ended 31 December 2008 and 2009, the Group’s cash flows for the two years ended 31 December 2008 and 2009 and the financial positions of the Group as at 31 December 2008 and 2009, and the related disclosures thereof in the consolidated financial statements.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that a proposal for the resumption of trading in the Company’s shares and the restructuring of the Group will be submitted to The Stock Exchange of Hong Kong Limited as soon as practicable.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group’s results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 23 April 2010

4. AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2010**INDEPENDENT AUDITOR'S REPORT****TO THE SHAREHOLDERS OF
FIRST NATURAL FOODS HOLDINGS LIMITED (PROVISIONAL LIQUIDATORS
APPOINTED)**

(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 26 to 73, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Because of the matters as described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION**1. Opening balances and corresponding figures**

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2009 (the “2009 Financial Statements”), which form 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 23 April 2010. Accordingly, we were then unable to form an opinion as to whether the 2009 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2009 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 years ended 31 December 2009 and 2010.

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 2010 and the Group’s financial positions as at that date.

3. Accruals, other payables and deposits received

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the amount due to a former director of the Company of approximately RMB57,975,000 as at 31 December 2010 as included in the accruals, other payables and deposits received of approximately RMB226,502,000 in the consolidated statement of financial position.

4. Financial guarantee liabilities

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the financial guarantee liabilities of RMB13,500,000 as at 31 December 2010 in the consolidated statement of financial position.

5. Commitments and contingent liabilities

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities as at 31 December 2010.

6. Related party transactions

No sufficient evidence has been provided to satisfy ourselves as to the existence, accuracy and completeness of the disclosures of the related party transactions for the year ended 31 December 2010 as required by Hong Kong Accounting Standard 24 “Related Party Disclosures”.

Any adjustments to the figures as described from points 1 to 6 above might have a significant consequential effect on the Group’s results for the two years ended 31 December 2009 and 2010, the Group’s cash flows for the two years ended 31 December 2009 and 2010 and the financial positions of the Group as at 31 December 2009 and 2010, and the related disclosures thereof in the consolidated financial statements.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that a proposal for the resumption of trading in the Company’s shares and the restructuring of the Group (the “Resumption Proposal”) was submitted to The Stock Exchange of Hong Kong Limited on 6 October 2010.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group’s results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 16 February 2011

**5. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31
DECEMBER 2011****INDEPENDENT AUDITOR'S REPORT****TO THE SHAREHOLDERS OF
FIRST NATURAL FOODS HOLDINGS LIMITED (PROVISIONAL LIQUIDATORS
APPOINTED)**

(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 25 to 71, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL
STATEMENTS**

The Directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Because of the matters as described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION**1. Opening balances and corresponding figures**

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2010 (the “2010 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 16 February 2011. Accordingly, we were then unable to form an opinion as to whether the 2010 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2010 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 years ended 31 December 2010 and 2011.

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 the Group’s financial positions as at that date.

3. Accruals, other payables and deposits received

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the amount due to a former director of the Company of approximately RMB55,803,000 as at 31 December 2011 as included in the accruals, other payables and deposits received of approximately RMB261,365,000 in the consolidated statement of financial position.

4. Financial guarantee liabilities

No direct confirmation and other sufficient evidence have been received by us up to the date of this report in respect of the financial guarantee liabilities of RMB13,500,000 as at 31 December 2011 in the consolidated statement of financial position.

5. Commitments and contingent liabilities

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of commitments and contingent liabilities as at 31 December 2011.

6. Related party transactions

No sufficient evidence has been provided to satisfy ourselves as to the existence, accuracy and completeness of the disclosures of the related party transactions for the year ended 31 December 2011 as required by Hong Kong Accounting Standard 24 (Revised) "Related Party Disclosures".

Any adjustments to the matters as described from points 1 to 6 above might have a significant consequential effect on the Group's results for the two years ended 31 December 2010 and 2011, the Group's cash flows for the two years ended 31 December 2010 and 2011 and the financial positions of the Group as at 31 December 2010 and 2011, and the related disclosures thereof in the consolidated financial statements.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that a proposal for the resumption of trading in the Company's shares and the restructuring of the Group was submitted to The Stock Exchange of Hong Kong Limited on 6 October 2010.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give 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 in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 30 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i> <i>(Restated)</i>
Turnover	7 & 9	730,660	144,006
Cost of sales		<u>(710,218)</u>	<u>(136,281)</u>
Gross profit		20,442	7,725
Other income	8	8,012	1,212
Selling expenses		(1,747)	(523)
Administrative expenses		<u>(11,291)</u>	<u>(2,234)</u>
Profit from operations		15,416	6,180
Restructuring costs	10	(3,113)	(3,725)
Finance costs	11	<u>(7,356)</u>	<u>(5,613)</u>
Profit/(loss) before tax	12	4,947	(3,158)
Income tax expense	13	<u>(2,674)</u>	<u>(1,119)</u>
Profit/(loss) for the year attributable to owners of the Company	16	2,273	(4,277)
Other comprehensive income for the year, net of tax:			
Exchange differences on translating foreign operations		<u>13,479</u>	<u>13,529</u>
Total comprehensive income for the year attributable to owners of the Company		<u>15,752</u>	<u>9,252</u>
Earnings/(loss) per share attributable to owners of the Company			
Basic and diluted (<i>RMB cents per share</i>)	18	<u>0.19</u>	<u>(0.36)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	20	210	40
Prepayments, deposits and other receivables	21	24,018	–
Goodwill	22	4,986	5,180
Deferred tax assets	23	<u>207</u>	<u>224</u>
		<u>29,421</u>	<u>5,444</u>
Current assets			
Inventories	24	3,424	3,944
Trade receivables	25	39,072	33,514
Prepayments, deposits and other receivables	21	6,463	6,581
Bank and cash balances	26	<u>29,586</u>	<u>13,485</u>
		<u>78,545</u>	<u>57,524</u>
Current liabilities			
Trade and bills payables	27	13,745	18,670
Accruals, other payables and deposits received	28	261,365	226,502
Bank and other borrowings	29	176,278	177,192
Financial guarantee liabilities	30	13,500	13,500
Current tax liabilities		<u>1,537</u>	<u>1,315</u>
		<u>466,425</u>	<u>437,179</u>
Net current liabilities		<u>(387,880)</u>	<u>(379,655)</u>
NET LIABILITIES		<u>(358,459)</u>	<u>(374,211)</u>
Capital and reserves			
Share capital	31	61,387	61,387
Reserves	32	<u>(419,846)</u>	<u>(435,598)</u>
TOTAL EQUITY		<u>(358,459)</u>	<u>(374,211)</u>

Approved by:

Stephen Liu Yiu Keung
David Yen Ching Wai

*Joint and Several Provisional Liquidators
who act without personal liabilities*

Wong Chi Keung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	Foreign currency translation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2010	61,387	300,028	41,421	32,688	(818,987)	(383,463)
Total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>13,529</u>	<u>(4,277)</u>	<u>9,252</u>
At 31 December 2010	<u>61,387</u>	<u>300,028</u>	<u>41,421</u>	<u>46,217</u>	<u>(823,264)</u>	<u>(374,211)</u>
At 1 January 2011	61,387	300,028	41,421	46,217	(823,264)	(374,211)
Total comprehensive income for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>13,479</u>	<u>2,273</u>	<u>15,752</u>
At 31 December 2011	<u>61,387</u>	<u>300,028</u>	<u>41,421</u>	<u>59,696</u>	<u>(820,991)</u>	<u>(358,459)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Cash flows from operating activities			
Profit/(loss) before tax		4,947	(3,158)
Adjustments for:			
Depreciation	<i>12 & 20</i>	71	8
Finance costs	<i>11 & 33</i>	7,356	5,613
Interest income	<i>8</i>	(32)	(24)
Operating cash flows before working capital changes		12,342	2,439
Change in inventories		520	(3,026)
Change in trade receivables		(5,558)	(26,290)
Change in prepayments, deposits and other receivables		(23,900)	(6,098)
Change in trade and bills payables		(4,925)	13,918
Change in accruals, other payables and deposits received	<i>33</i>	3,485	(332)
Cash used in operations		(18,036)	(19,389)
Income taxes paid		(2,377)	–
Net cash flows used in operating activities		<u>(20,413)</u>	<u>(19,389)</u>
Cash flows from investing activities			
Interest received		32	24
Acquisition of a subsidiary		–	177
Purchase of property, plant and equipment	<i>20</i>	(244)	(4)
Net cash flows (used in)/generated from investing activities		<u>(212)</u>	<u>197</u>
Cash flows from financing activities			
Interest paid	<i>11 & 33</i>	(178)	–
Other borrowing raised	<i>29</i>	5,723	–
Fund from the Investor	<i>28</i>	30,328	25,451
Net cash flows generated from financing activities		<u>35,873</u>	<u>25,451</u>
Net increase in cash and cash equivalents			
Effect of foreign exchange rate changes		15,248	6,259
Cash and cash equivalents at beginning of year		853	739
		<u>13,485</u>	<u>6,487</u>
Cash and cash equivalents at end of year		<u>29,586</u>	<u>13,485</u>
Analysis of cash and cash equivalents			
Bank and cash balances	<i>26</i>	<u>29,586</u>	<u>13,485</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business is 62nd Floor, One Island East, 18 Westlands Road, Island East, Hong Kong. The Company's Shares are listed on the Main Board of the Stock Exchange and have been suspended for trading since 15 December 2008.

The Company is an investment holding company. The Company, through its major subsidiaries, is principally engaged in the processing and trading of food products mainly including frozen and functional food products. The principal activities of its subsidiaries are set out in note 39 to the consolidated financial statements.

2. BASIS OF PREPARATION**Appointment of the Provisional Liquidators**

Trading in the Shares has been suspended since 9:30 a.m. on 15 December 2008 at the request of the Company.

After the suspension, the whereabouts of Mr. Yeung, a former executive Director and chairman, and Mr. Yang, a former executive Director, could not be confirmed. To maintain the stability and control of the Company, the new Board of the Directors was formed. Given that the Board had difficulties in exercising the authority and control of the Company over some of its subsidiaries, the Board was of the view that, for the benefit of the creditors and the Shareholders as a whole, it was appropriate and necessary to appoint provisional liquidators to preserve the Company's assets and investigate into the affairs and financial condition of the Group.

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 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. As such, the Provisional Liquidators do not have the same knowledge of the financial affairs of the Group as the Board would have, particularly in relation to the transactions entered into by the Group prior to their appointment date and the Board has been assisting the Provisional Liquidators to ascertain the Group's financial position since then.

Restructuring of the Group

After their appointment, the Provisional Liquidators appointed Asian Capital as the financial advisor to the Company on 5 February 2009 to assist the Provisional Liquidators in identifying potential investors with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

On 12 March 2009, the Stock Exchange sent a letter to the Company stating that in view of the prolonged suspension of trading in the Shares, the delisting procedures set out in Practice Note 17 to the Listing Rules applied to the Company and the Company had been put into the first stage of the delisting procedures which commenced on the date of suspension. If the Company failed to submit a viable resumption proposal to address certain conditions on or before 11 September 2009, the Stock Exchange might consider proceeding to place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules.

The Provisional Liquidators and Asian Capital used their best endeavours to look for potential investors with interest in the restructuring of the Company. Consequently, the restructuring proposal of Group Will Holdings Limited had been accepted by the Provisional Liquidators.

On 30 July 2009, an exclusivity agreement (the “Exclusivity Agreement”) was entered into among the Investor, Mr. Huang, the Company and the Provisional Liquidators to grant the Investor a 12-month exclusivity period to prepare a viable resumption proposal to be submitted to the Stock Exchange with a view to resuming the trading in the Shares, and to negotiating in good faith for entering into a legally binding formal agreement for the implementation of the resumption proposal. Since the exclusivity period has expired on 29 July 2010, in view of the Investor’s willingness and financial ability to pursue the restructuring, a supplemental agreement was entered into to grant an extension of the exclusivity period to the Investor to cover the remaining period before the deadline for submitting the resumption proposal.

Pursuant to the Exclusivity Agreement, the Investor shall negotiate with the Provisional Liquidators to enter into an arrangement of working capital facility of up to HK\$10 million (or such higher sum the Investor may agree from time to time) for the settlement of the trading and operating expenses as are required to carry on and maintain a viable business of the sale of food products during the course of the proposed restructuring. Such working capital facility will be secured by a debenture with charge(s) over certain assets of the Group. With the sanction from the Hong Kong Court, on 12 April 2010, the Investor and Supreme Wit, a direct wholly-owned subsidiary of the Company which was set up after the appointment of the Provisional Liquidators for the purpose of the restructuring, entered into a working capital facility agreement pursuant to which the Investor had agreed to provide a facility of up to HK\$50 million (or such higher sum as the Investor may agree from time to time) (the “Facility Agreement”) to Supreme Wit, and the Facility Agreement had been secured by a debenture (the “Debenture”) executed on 12 April 2010 by Supreme Wit in favour of the Investor. On 18 February 2011, a supplemental deed to the Facility Agreement and a supplemental deed to the Debenture were entered into, pursuant to which the Investor agreed to increase the said facility to the principal amount of up to HK\$70 million.

Given the time constraints, the Company was unable to submit the resumption proposal by 11 September 2009 and the Company was placed into the second stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules on 18 September 2009.

On 6 October 2010, Asian Capital and the Provisional Liquidators submitted the Resumption Proposal. On 5 November 2010, the Listing Committee of the Stock Exchange (the “Listing Committee”) rejected the Resumption Proposal. The Listing Committee considered that the Resumption Proposal had not satisfactorily demonstrated sufficiency of operation or assets as required under Rule 13.24 of the Listing Rules.

On 15 November 2010, Asian Capital filed an application for review (the “Review Application”) on behalf of the Company to the Listing (Review) Committee of the Stock Exchange (the “Listing (Review) Committee”). On 15 March 2011, the hearing by the Listing (Review) Committee took place. On 18 March 2011, the Listing (Review) Committee decided to uphold the Listing Committee’s decision.

On 28 March 2011, Asian Capital filed an application for review on behalf of the Company to the Listing Appeals Committee. A supplemental submission was submitted to the Listing Appeals Committee and the hearing by the Listing Appeals Committee was taken place on 27 September 2011.

On 30 September 2011, the Listing Appeals Committee decided to accept the Resumption Proposal set out in the Resumption Submission, subject to the Company’s compliance with the Resumption Conditions to the satisfaction of the Listing Division as extracted and disclosed below:

- 1) the Company’s operating profit for the year ending 2011 should not be less than HK\$18 million;
- 2) obtaining approval from the Company’s shareholders and the relevant courts (where applicable) for conditions 3 to 6;

- 3) completion of the arrangement for the Capital Restructuring, which comprises the capital reduction, capital cancellation, share consolidation and the increase in authorised share capital as set out in the Resumption Submission;
- 4) completion of the Open Offer on the basis of 7 Offer Shares for every one new share of the Company after the capital reorganization at HK\$0.5622 each to be fully underwritten by the Investor as set out in the Resumption Submission;
- 5) obtaining the requisite creditors' approval for the debt restructuring/schemes of arrangement (with the relevant sanction from courts thereafter), under which a cash payment of HK\$62 million out of the proceeds from the share subscription by the Investor will be paid to the Company's creditors and the Company will issue 14,823,936 new shares after the capital reorganization to the creditors of the Company or the scheme administrators for the benefit of the Company's creditors who agree to enter into the schemes of arrangement;
- 6) obtaining approval from the Executive of the SFC for both the whitewash waiver and the special deal as set out in the Resumption Submission;
- 7) production of a written confirmation to the Listing Division by an independent auditor confirming the following:
 - a. completion of the Share Subscription; and
 - b. the net proceeds from the Share Subscription by the Investor are held by a bank in Hong Kong in the name of the Company;
- 8) full payment of all and any outstanding listing fees by the Company;
- 9) cancellation of the debenture over the assets of Supreme Wit Limited, a direct wholly-owned subsidiary of the Company;
- 10) confirmation from the Provisional Liquidators, with supporting information, as to the working capital sufficiency of the Company up to and at least twelve months after the date of resumption;
- 11) if resumption of trading does not take place before 1 April 2012, the Company to have published its audited accounts for the year ending 31 December 2011; and
- 12) the Investor to place down its shares to restore public float (as necessary) within one month of resumption of trading.

Save for the conditions 11 and 12, all of the above Resumption Conditions must be complied with to the satisfaction of the Listing Division within six months from the date of the decision letter. The deadline may be extended by the Listing Division on good cause being shown by the Company. The Company, the Provisional Liquidators and the Investor are now taking appropriate steps to fulfil the Resumption Conditions.

On 5 January 2012, the Company, the Provisional Liquidators, the Investor and Mr. Huang as the Guarantor entered into an agreement to implement the proposed restructuring set out in the Resumption Submission.

The Scheme is proposed in the Resumption Submission. On 20 March 2012, both the Hong Kong Court and Bermuda Court granted orders to convene the creditors' meeting to approve the Scheme. The meeting of the Scheme will be convened on 26 April 2012.

As it is expected that the Company will not be able to fully satisfy the Resumption Conditions within the deadline imposed by the Listing Appeals Committee, on 28 March 2012, the Company made an application to the Listing Division to seek additional time for the Company to fully satisfy the Resumption Conditions.

The Provisional Liquidators have provided regular updates on the status of the Group to the Hong Kong Court and suggested for the adjournment of granting the winding-up order against the Company. On 13 January 2012, the hearing of the Petition has been further adjourned to 16 July 2012.

Restoration of the Group's business

While taking steps and actions to fulfill the Resumption Conditions, the Company has been trying to resume its trading and processing of food products business. As mentioned in the section headed "Restructuring of the Group", with the working capital facility provided by the Investor, the Group has restored its trading business operations in the second half of 2009 by establishing the special purpose vehicles to carry out the trading and processing business.

In October 2010, the Group completed the acquisition of the entire issued share capital of Orient Legend for an aggregate cash consideration of HK\$10,000,000, pursuant to which the trading of food products were strengthened further. In October 2010, the Group entered into the Sincere Gold Agreement. According to the terms of the Sincere Gold Agreement, the Jiangmen processing plant 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.

In addition, to further expand the Group's business, the Group had already begun the distribution of frozen foods products in Beijing area, as a first step, in the second half of 2011 as we recognised a strong demand for frozen food products in the PRC.

As announced on 10 June 2011, the Group intends to proceed with the Acquisition of Sprintech.

As the conditions set out in the Agreement have not been satisfied on or before the date falling on the sixth calendar month from the date of the Agreement, the Agreement has been terminated pursuant to the terms of the Agreement. Such termination has no material adverse effect on the Group's business operations and its financial position.

Going concern

As at 31 December 2011, the Group had net current liabilities of approximately RMB387,880,000 (2010: approximately RMB379,655,000) and net liabilities of approximately RMB358,459,000 (2010: approximately RMB374,211,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments will have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. 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 (“HKICPA”) which are or have become effective for its accounting year beginning on 1 January 2011:

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
HK(IFRIC)-Int 14 Amendment	Amendment to HK(IFRIC)-Int14 Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

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, presentation of the Group’s consolidated 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	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Government loans ⁴
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 ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities ⁴
HKFRS 9	Financial Instruments ⁶
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1 Amendments	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income ³
HKAS 12 Amendments	Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (2011)	Employee Benefits ⁴
HKAS 27 (2011)	Separate Financial Statements ⁴
HKAS 28 (2011)	Investments in Associates and Joint Ventures ⁴
HKAS 32 Amendments	Presentation – Offsetting Financial Assets and Financial Liabilities ⁵
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ⁴
Amendments to HKFRS 9 and HKFRS 7	Amendments to HKFRS 9 Financial Instruments and HKFRS 7 Financial Instruments: Disclosures – Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁶

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2014

⁶ Effective for annual periods beginning on or after 1 January 2015

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.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires the Directors to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency. The functional currency of the Company is Hong Kong Dollars. The Directors consider that choosing Renminbi as the presentation currency best suits the needs of the shareholders and investors.

b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvement	5 years
Furniture and equipment	5 years
Computer hardware and software	3 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original

terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Food processing income is recognised when the food processing services are rendered.

Commission fee income is recognised when the handling services are rendered.

Storage fee income is recognised based on the time period of which the merchandise is stored in the Group's leased warehouses.

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can

be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (B) An entity is related to the Group (reporting entity) if any of the following conditions apply:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (A).

- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets except goodwill, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENT AND KEY ESTIMATES**Critical judgement in applying accounting policies**

In the process of applying the accounting policies, the Directors have made the following judgement that has the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group being able to achieve a successful restructuring and continue its business. Details are explained in note 2 to the consolidated financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

d) *Write-down for inventories*

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

6. FINANCIAL RISK MANAGEMENT

The Group has exposure to credit risk, liquidity risk and market risk (including currency risk and interest rate risk) from its use of financial instruments. This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing risk.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the Group's credit risk is primarily attributable to the trade receivables, deposit for the Sincere Gold Agreement and deposits with financial institutions. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

(i) *Trade receivables*

The Group has established a credit policy under which credit evaluations are performed on all customers requiring credit. Trade receivables are due within 3 months from the date of billing. Debtors with balances that are more than 3 months are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At 31 December 2011, the Group has a certain concentration of credit risk of approximately RMB9,910,000 (2010: approximately RMB10,853,000) and approximately RMB17,658,000 (2010: approximately RMB18,008,000) out of the total trade receivables of approximately RMB39,072,000 (2010: approximately RMB33,514,000) as at 31 December 2011, which was arising from the Group's largest debtor and the two largest debtors respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position after deducting any impairment allowance. Except for a financial guarantee given by the Company as set out in note 30, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of this financial guarantee at the Company's statement of financial position is disclosed in note 40.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 25.

(ii) *Deposit for the Sincere Gold Agreement*

Regarding the Sincere Gold Agreement as disclosed in notes 2 and 21 to these consolidated financial statements, the Group places a refundable security deposit of approximately RMB16,353,000 (equivalent to HK\$20,000,000) as at 31 December 2011. The Group has been closely working with the recipients under the Sincere Gold Agreement and through which the Group monitors cautiously the financial situation of the recipients to assess the recoverability of the security deposit.

(iii) *Deposits with financial institutions*

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating assigned by international credit-rating agencies or other criteria. Given these high credit ratings, the Group does not expect any counterparty to fail to meet its obligations.

As at 31 December 2011, the Group has no concentration of credit risk (2010: nil) of total cash and cash equivalents.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. All financial liabilities of the Group are maturity within one year.

Currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions and assets are principally denominated in the Canadian Dollar. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2011, if the Renminbi had weakened/strengthened 5% per cent against the Canadian Dollar with all other variables held constant, the consolidated profit after tax for the year would have been approximately RMB70,000 (2010: RMB nil) higher/lower, arising mainly as a result of the foreign exchange gain/loss on trade receivables denominated in Canadian Dollar.

There was no trade receivable principally denominated in the Canadian Dollar as at 31 December 2010.

Interest rate risk

The Group's interest rate risk arises primarily from the Group's bank deposits and bank and other borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk.

At 31 December 2011, if interest rates on the bank and other borrowings at that date had been 1% lower/higher with all other variables held constant, the consolidated profit after tax for the year would have been approximately RMB1,763,000 higher/lower, arising mainly as a result of lower/higher interest expense on bank and other borrowings.

At 31 December 2010, if interest rates on the bank and other borrowings at that date had been 1% lower/higher with all other variables held constant, the consolidated loss after tax for the year would have been approximately RMB1,772,000 lower/higher, arising mainly as a result of lower/higher interest expense on bank and other borrowings.

Fair value

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.

7. TURNOVER

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Sales of goods	<u>730,660</u>	<u>144,006</u>

8. OTHER INCOME

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Food processing income	5,500	–
Commission income	1,329	619
Storage fee income	1,129	569
Interest income	32	24
Sundry income	<u>22</u>	<u>–</u>
	<u>8,012</u>	<u>1,212</u>

9. 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 described in note 4 to the consolidated financial statements. Segment profit or loss do not include restructuring costs and finance costs arising from bank borrowings. Segment assets do not include amounts due from related parties and investments. Segment liabilities do not include bank borrowings and financial guarantee liabilities. 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 loss, assets and liabilities is as follows:

	Frozen and functional food products	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i> <i>(Restated)</i>
Years ended 31 December		
Revenue from external customers	730,660	144,006
Segment profit	16,413	7,595
Interest income	7	2
Finance costs arising from other borrowing and bank overdraft	178	–
Depreciation	63	–
Income tax expense	2,674	1,119
Additions to segment non-current assets	<u>244</u>	<u>4</u>
As at 31 December		
Segment assets	95,730	48,498
Segment liabilities	<u>81,280</u>	<u>39,784</u>

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Profit or loss		
Total profit or loss of reportable segment	16,413	7,595
Unallocated amounts:		
Unallocated corporate income and expenses	(1,175)	(1,415)
Restructuring costs	(3,113)	(3,725)
Finance costs arising from bank borrowings	(7,178)	(5,613)
	<u>4,947</u>	<u>(3,158)</u>
Consolidated profit/(loss) before tax	<u>4,947</u>	<u>(3,158)</u>
Assets		
Total assets of reportable segment	95,730	48,498
Unallocated amounts:		
Deferred tax assets	216	224
Goodwill	4,986	5,180
Unallocated corporate assets	7,034	9,066
	<u>107,966</u>	<u>62,968</u>
Consolidated total assets	<u>107,966</u>	<u>62,968</u>
Liabilities		
Total liabilities of reportable segment	81,280	39,784
Unallocated amounts:		
Bank borrowings	170,555	177,192
Financial guarantee liabilities	13,500	13,500
Unallocated corporate liabilities	201,090	206,703
	<u>466,425</u>	<u>437,179</u>
Consolidated total liabilities	<u>466,425</u>	<u>437,179</u>

Geographical information:

	Revenue		Non-current assets	
	Year ended 31 December		As at 31 December	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Canada	31,767	24,905	–	–
Mainland China	642,965	96,169	–	–
Hong Kong	45,480	18,400	29,214	5,220
Others	10,448	4,532	–	–
	<u>730,660</u>	<u>144,006</u>	<u>29,214</u>	<u>5,220</u>
Consolidated total	<u>730,660</u>	<u>144,006</u>	<u>29,214</u>	<u>5,220</u>

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

Revenue from major customers:

	As at 31 December	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	235,365	29,233
Customer B	121,351	19,658
Customer C	87,567	17,955
Customer D	42,458	10,597
Customer E	36,797	9,828
	<u> </u>	<u> </u>

10. RESTRUCTURING COSTS

Restructuring costs mainly included the legal fees, fee to the financial advisor and the Provisional Liquidators and other professional fees for implementing the proposed restructuring. Such expenses are financed by the Investor and non-recurring in nature.

11. FINANCE COSTS

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on:		
Bank borrowings wholly repayable within 1 year or on demand	7,178	5,613
Other borrowing wholly repayable within 1 year	174	–
Bank overdraft interest	4	–
	<u> </u>	<u> </u>
	<u>7,356</u>	<u>5,613</u>

12. PROFIT/(LOSS) BEFORE TAX

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Directors' emoluments		
As directors	228	293
For management	<u>—</u>	<u>—</u>
	<u>228</u>	<u>293</u>
Auditor's remuneration	<u>298</u>	<u>280</u>
Staff costs including directors' emoluments		
Salaries, bonus and allowances	3,068	705
Retirement benefits scheme contributions	102	26
Less: forfeited contribution	<u>—</u>	<u>(128)</u>
	<u>3,170</u>	<u>603</u>
Acquisition-related costs (included in restructuring costs)	43	673
Cost of inventories sold	704,637	136,281
Depreciation	71	8
Net exchange losses	254	449
Other operating lease charges on the Sincere Gold Agreement (note 21(a))	2,176	—
Operating lease charges on land and buildings	<u>691</u>	<u>402</u>

13. INCOME TAX EXPENSE

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	2,663	1,119
Under-provision in prior years	<u>2</u>	<u>—</u>
	2,665	1,119
Deferred tax (note 23)	<u>9</u>	<u>—</u>
	<u>2,674</u>	<u>1,119</u>

Hong Kong Profits Tax is calculated at 16.5% (2010: 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.

The reconciliation between the income tax expense and the profit/(loss) before tax is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Profit/(loss) before tax	4,947	(3,158)
Notional tax credit on loss before tax, calculated at the rates applicable in the tax jurisdictions concerned	–	(790)
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	816	–
Tax effect of income not taxable and expenses not deductible	8	1,909
Tax effect of tax losses not recognised	1,848	–
Under-provision in prior years	2	–
	<u>2,674</u>	<u>1,119</u>

14. DIRECTORS' EMOLUMENTS

The emoluments of each Director were as follows:

Name of executive Director	Fees <i>RMB'000</i>	Basic salaries, allowances and benefits in-kind <i>RMB'000</i>	Share- based payments <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Lee Wa Lun, Warren	–	–	–	–	–
	–	–	–	–	–
Name of independent non-executive Directors					
Leung King Yue, Alex	50	–	–	–	50
Tang Chi Chung, Matthew	50	–	–	–	50
Lo Wai On (<i>note (a)</i>)	4	–	–	–	4
Wong Chi Keung	124	–	–	–	124
	<u>228</u>	–	–	–	<u>228</u>
Total for 2011	<u>228</u>	–	–	–	<u>228</u>

Name of executive	Fees	Basic salaries, allowances and benefits	Share-based payments	Retirement benefit scheme contributions	Total
	RMB'000	in-kind RMB'000	RMB'000	RMB'000	RMB'000
Director					
Lee Wa Lun, Warren	—	—	—	—	—
	—	—	—	—	—
Name of independent non-executive Directors					
Leung King Yue, Alex	53	—	—	—	53
Tang Chi Chung, Matthew	53	—	—	—	53
Lo Wai On (<i>note (a)</i>)	53	—	—	—	53
Wong Chi Keung	134	—	—	—	134
	293	—	—	—	293
Total for 2010	<u>293</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>293</u>

Note:

(a) Resigned with effect from 31 January 2011

15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included nil (2010: 1) Directors, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 5 (2010: 4) individual are set out below:

	2011 RMB'000	2010 RMB'000
Basic salaries and allowances	2,090	261
Retirement benefit scheme contributions	<u>90</u>	<u>21</u>
	<u>2,180</u>	<u>282</u>

The emoluments of the 5 individuals (2010: 4) fall within the following band:

	Number of individuals	
	2011	2010
HK\$ Nil – HK\$1,000,000 (approximately equivalent to RMB829,080) (2010: approximately RMB887,845)	<u>5</u>	<u>4</u>

During the years ended 31 December 2011 and 2010, no emoluments were paid or payable to the five highest paid individuals (including Directors and other employees) as an inducement to join the Group or as a compensation for loss of office.

16. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit/(loss) for the year attributable to owners of the Company includes a loss of approximately RMB10,880,000 (2010: loss of approximately RMB9,793,000) which has been dealt with in the financial statements of the Company.

17. DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

18. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY**Basic earnings/(loss) per share**

The calculation of basic earnings (2010: loss) per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately RMB2,273,000 (2010: loss attributable to owners of the Company of approximately RMB4,277,000) and the weighted average number of approximately 1,185,915,000 ordinary shares (2010: approximately 1,185,915,000 ordinary shares) in issue during the year.

Diluted earnings/(loss) per share

Diluted earnings (2010: loss) per share attributable to owners of the Company for both years are the same as the respective basic earnings/(loss) per share as the Company did not have any dilutive potential ordinary shares during both years.

19. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000 (equivalent to approximately RMB16,582), contributions to the MPF Scheme vest immediately. Contributions paid or payable to the MPF scheme are charged to the consolidated statement of comprehensive income.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong. In the opinion of the Directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2011 in respect of the retirement benefits of its employees.

20. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>RMB'000</i>	Furniture and equipment <i>RMB'000</i>	Computer hardware and software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2010	–	718	–	718
Additions	–	4	–	4
Acquisition of a subsidiary	–	18	–	18
Exchange differences	–	(24)	–	(24)
At 31 December 2010 and 1 January 2011	–	716	–	716
Additions	107	71	66	244
Exchange differences	(1)	(28)	–	(29)
At 31 December 2011	106	759	66	931
Accumulated depreciation				
At 1 January 2010	–	692	–	692
Charge for the year	–	8	–	8
Exchange differences	–	(24)	–	(24)
At 31 December 2010 and 1 January 2011	–	676	–	676
Charge for the year	18	33	20	71
Exchange differences	–	(26)	–	(26)
At 31 December 2011	18	683	20	721
Carrying amount				
At 31 December 2011	88	76	46	210
At 31 December 2010	–	40	–	40

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Non-current assets		
Prepayment and deposit for the Sincere Gold Agreement (<i>note (a)</i>)	24,018	–
Current assets		
Prepayment and deposit for the Sincere Gold Agreement (<i>note (a)</i>)	2,453	2,973
Deposit for the Agreement (<i>note (b)</i>)	409	–
Advances to suppliers	3,071	3,270
Rental and other deposits	530	338
	6,463	6,581

- (a) On 5 October 2010, Pacific Prosper an indirect wholly-owned subsidiary of the Company, entered into the Sincere Gold Agreement pursuant to which the total rental for a five-year period and security deposit are HK\$15,000,000 and HK\$20,000,000 respectively. In November 2010, HK\$3,500,000 was paid and the balance of HK\$31,500,000 was paid in February 2011.

The operating lease commenced since mid-February 2011 and HK\$2,625,000 (approximately RMB2,176,000) was charged to profit or loss of the Group for the year ended 31 December 2011. As a result, the Group had remaining balances of rental prepayment and security deposit of HK\$12,375,000 (approximately RMB10,118,000) and HK\$20,000,000 (approximately RMB16,353,000) as at 31 December 2011, in which HK\$3,000,000 (approximately RMB2,453,000) of the rental prepayment was classified as a current asset and the remaining rental prepayment of HK\$9,375,000 (approximately RMB7,665,000) and the security deposit of HK\$20,000,000 (approximately RMB16,353,000) are classified as non-current assets at the end of the reporting period.

- (b) On 10 June 2011, Pacific Prosper and Mr. Chu Yin Tat and Ms. Tam Wai Chun (the “Vendors”) entered into the Agreement pursuant to which Pacific Prosper conditionally agreed to purchase and the Vendors conditionally agreed to sell the entire issued share capital of the New Profit Global Limited at the consideration of HK\$4,500,000 in cash. In June 2011, HK\$500,000 (equivalent to approximately RMB409,000) was paid. On 4 January 2012, the Group announced that the Agreement lapsed pursuant to its terms. Accordingly, the deposit for the Agreement was refunded.

22. GOODWILL

	<i>RMB'000</i>
Cost	
Arising from the acquisition of a subsidiary	5,180
At 31 December 2010	5,180
Exchange differences	(194)
At 31 December 2011	4,986
Accumulated impairment losses	
Recognised for the years ended 31 December 2010 and 2011 and balance as at 31 December 2011	—
Carrying amount	
At 31 December 2011	<u>4,986</u>
At 31 December 2010	<u>5,180</u>

During the year ended 31 December 2010, the Group acquired the entire issued share capital of Orient Legend for an aggregate cash consideration of HK\$10,000,000. Details of which had been disclosed in the 2010 annual report of the Company.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (“CGUs”) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill of approximately RMB4,986,000 (2010: approximately RMB5,180,000) had been allocated to sales of food products contributed by Orient Legend.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 5%. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's sales of food products is 12%.

23. DEFERRED TAX ASSETS

The components of deferred tax assets and liabilities recognized in the consolidated statement of financial position and the movements during the current year are as follows:

	Impairment loss of bad and doubtful debts	Other temporary differences	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets			
At 1 January 2010	60	173	233
Exchange differences	<u>(2)</u>	<u>(7)</u>	<u>(9)</u>
At 31 December 2010	58	166	224
Exchange differences	<u>(2)</u>	<u>(6)</u>	<u>(8)</u>
At 31 December 2011	<u>56</u>	<u>160</u>	<u>216</u>
		Other temporary differences	
		<i>RMB'000</i>	
Deferred tax liabilities			
Charged to profit or loss for the year ended 31 December 2011			<u>9</u>
At 31 December 2011			<u>9</u>

The following is the analysis of the deferred tax balances (after offset) for the consolidated statement of financial position purposes:

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets	216	224
Deferred tax liabilities	<u>(9)</u>	<u>–</u>
	<u>207</u>	<u>224</u>

24. INVENTORIES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Merchandise	<u>3,424</u>	<u>3,944</u>

25. 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/contract date, and net of allowance, is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within 1 month	4,574	12,692
More than 1 month but within 3 months	22,338	17,351
More than 3 months but within 6 months	9,858	2,130
More than 6 months but within 1 year	2,159	1,341
More than 1 year	<u>143</u>	<u>–</u>
	<u>39,072</u>	<u>33,514</u>

The aging analysis of trade receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired are as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Neither past due nor impaired	26,912	30,043
More than 3 months but within 6 months	9,858	2,130
More than 6 months but within 1 year	2,159	1,341
More than 1 year	<u>143</u>	<u>–</u>
	<u>39,072</u>	<u>33,514</u>

Receivables that were neither past due nor impaired relate to a number of independent customers for whom there was no recent history of default.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Hong Kong dollars	3,535	14,738
US dollars	34,139	18,776
Canada dollars	<u>1,398</u>	<u>–</u>
	<u>39,072</u>	<u>33,514</u>

26. BANK AND CASH BALANCES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Cash at bank and in hand	<u>29,586</u>	<u>13,485</u>

As at 31 December 2011, the bank and cash balances of the Group were denominated in the following currencies:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
RMB	4,017	185
Hong Kong dollars	13,339	10,943
US dollars	7,047	846
Euro dollars	<u>5,183</u>	<u>1,511</u>
	<u>29,586</u>	<u>13,485</u>

27. TRADE AND BILLS PAYABLES

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within 1 month	4,139	11,523
More than 1 month but within 3 months	8,916	6,173
More than 3 months but within 6 months	6	974
More than 6 months but within 1 year	665	–
More than 1 year	<u>19</u>	<u>–</u>
	<u>13,745</u>	<u>18,670</u>

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Hong Kong dollars	1,992	5,727
US dollars	11,502	12,943
Euro dollars	<u>251</u>	<u>–</u>
	<u>13,745</u>	<u>18,670</u>

28. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Finance costs payable	22,880	16,416
Accruals and other payables	9,971	7,048
Deposit received	1,951	1,623
Claim arising from a derivative financial instrument (<i>note (a)</i>)	101,648	105,604
Amount due to a former director of the Company (<i>note (b)</i>)	55,803	57,975
Amount due to a director of the subsidiaries (<i>note (b)</i>)	4,521	3,573
Amount due to the Investor (<i>note (c)</i>)	64,591	34,263
	<u>261,365</u>	<u>226,502</u>

Notes:

- (a) Included in the accruals, other payables and deposits received of the Group is a claim arising from a derivative financial instrument with a carrying amount of US\$15,979,544 (equivalent to approximately RMB101,648,000) (31 December 2010: US\$15,979,544 (equivalent to approximately RMB105,604,000)). The claim is arising from a notice of early termination of a US\$ interest rate swap agreement dated 3 November 2008 served by a commercial bank. The Provisional Liquidators had engaged a Hong Kong legal advisor to assist in reviewing the claim lodged by that commercial bank.
- (b) The amounts due to a former director of the Company and a director of the subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.
- (c) The amount due to the Investor is non-interest bearing.

The outstanding balance included an amount of approximately RMB13.3 million advancement (the “Advancement”) and an amount of HK\$5 million (approximately RMB4.1 million) earnest money (the “Earnest Money”) paid by the Investor pursuant to the Exclusivity Agreement. The Advancement is used for payment of the restructuring fees and other professional fees during the restructuring process. If the completion of the restructuring fails to take place solely as a consequence of (i) the Investor failing to perform its obligations in material aspects; or (ii) the Investor breaching any of its obligations under the Exclusivity Agreement or any restructuring agreement in material aspects, the Earnest Money shall be forfeited and released to the Provisional Liquidators for the benefit of the Company’s creditors. If the Exclusivity Agreement is terminated or if the completion of the restructuring fails to take place because of any reason(s) other than the failure or the breach by the Investor as aforesaid stated, the Earnest Money shall be refunded to the Investor. Upon the completion of the restructuring, the Earnest Money and the Advancement shall form part of the subscription proceeds payable by the Investor. Both the Earnest Money and the Advancement are unsecured.

The remaining outstanding balance of approximately RMB47.1 million is the loan (the “Loan”) paid by the Investor pursuant to the working capital facility and for the use of the operation of Supreme Wit and its operating subsidiaries. The Loan is secured by the floating charge on all the assets of Supreme Wit, a direct wholly-owned subsidiary of the Company, and has no fixed terms of repayment.

- (d) All amounts of the accruals, other payables and deposits received as stated above were recognised based on the books and records of the Group made available to the Directors and the Provisional Liquidators.

29. BANK AND OTHER BORROWINGS

The bank and other borrowings were unsecured and repayable as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within 1 year or on demand		
Bank borrowings	170,555	177,192
Other borrowing	<u>5,723</u>	<u>–</u>
	<u>176,278</u>	<u>177,192</u>

The carrying amounts of the bank and other borrowings are denominated in the following currencies:

	US\$ <i>RMB'000</i>	HK\$ <i>RMB'000</i>	Total <i>RMB'000</i>
2011	<u>31,888</u>	<u>144,390</u>	<u>176,278</u>
2010	<u>33,044</u>	<u>144,148</u>	<u>177,192</u>

At 31 December 2011, the terms of bank borrowings were as follows:

- (a) Bank borrowings of approximately HK\$18,699,000 (2010: HK\$18,699,000) carried interest at 2.75% (2010: 2.75%) over HIBOR per annum and are repayable within one year.
- (b) Bank borrowings of approximately HK\$16,667,000 (2010: HK\$16,667,000) carried interest at 1.75% (2010: 1.75%) over HIBOR per annum and are repayable within one year.
- (c) Bank borrowings of approximately HK\$14,000,000 (2010: HK\$14,000,000) carried interest at 2.5% (2010: 2.5%) over HIBOR per annum and are repayable within one year.
- (d) Bank borrowings of US\$5,000,000 (2010: US\$5,000,000) carried interest at 1.75% (2010: 1.75%) over LIBOR per annum and are repayable within one year.
- (e) Bank borrowings of approximately HK\$3,553,000 (2010: HK\$3,553,000) carried interest at 2% (2010: 2%) over HIBOR per annum and are repayable within one year.
- (f) Bank borrowings of HK\$30,000,000 (2010: HK\$30,000,000) carried interest at 3.5% (2010: 3.5%) over HIBOR per annum and repayable within one year.
- (g) Bank borrowings of approximately HK\$86,777,000 (2010: HK\$86,777,000) carried interest at 1.25% (2010: 1.25%) over HIBOR per annum and are repayable within one year.

At 31 December 2011, the terms of other borrowing of HK\$7,000,000 (2010: HK\$nil) carried a interest at 6% (2010: nil) per annum and is repayable within one year from the date of drawdown.

30. FINANCIAL GUARANTEE LIABILITIES

In 2008, a bank borrowing of RMB13,500,000 maintained by Fuqing Longyu Food Development Company Limited was deconsolidated from the consolidated financial statements of the Company since 1 July 2008. However, since the Company provides corporate guarantee for the bank borrowing, the Company is therefore liable to the financial guarantee liabilities of RMB13,500,000 as at 31 December 2011 (2010: RMB13,500,000).

31. 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.

	2010 and 2011	
	Number of shares '000	Amount RMB'000
Authorized:		
Ordinary shares of HK\$0.05 each	<u>2,000,000</u>	<u>106,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each At 1 January and 31 December	<u>1,185,915</u>	<u>61,387</u>

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.

32. RESERVES**a) Group**

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

b) Company

	Share premium RMB'000	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	300,028	(37,817)	(707,286)	(445,075)
Total comprehensive income for the year	<u>–</u>	<u>13,770</u>	<u>(9,793)</u>	<u>3,977</u>
At 31 December 2010	<u>300,028</u>	<u>(24,047)</u>	<u>(717,079)</u>	<u>(441,098)</u>
At 1 January 2011	300,028	(24,047)	(717,079)	(441,098)
Total comprehensive income for the year	<u>–</u>	<u>13,860</u>	<u>(10,880)</u>	<u>2,980</u>
At 31 December 2011	<u>300,028</u>	<u>(10,187)</u>	<u>(727,959)</u>	<u>(438,118)</u>

c) Nature and purpose of reserves of the Group

(i) Share premium

In accordance with Section 40 of the Bermuda Companies Act 1981, the share premium account of the Company is distributable to the shareholders of the Company in the form of fully paid bonus shares.

(ii) Merger reserve

Merger reserve represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired, pursuant to the reorganisation scheme which rationalising the structure of the Group for the listing of the Company's shares on the Stock Exchange over the nominal value of the share capital of the Company issued in exchange therefore.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

33. MAJOR NON-CASH TRANSACTION

During the year, change in the amount of accruals, other payables and deposits received as shown in the operating activities of the consolidated statement of cash flows included an amount of approximately RMB7,178,000 (2010: approximately RMB5,613,000) relating to the finance costs arising from bank borrowings.

34. COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital commitments		
The consideration in relation to the Agreement (note 21(b))	<u>3,270</u>	<u>–</u>

Operating lease commitments

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

	2011 RMB'000	2010 RMB'000
Within 1 year	711	536
After 1 year but within 5 years	<u>294</u>	<u>542</u>
	<u>1,005</u>	<u>1,078</u>

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Other commitments		
Prepayment and deposit for the Sincere Gold Agreement (<i>note 21(a)</i>)	–	26,758

35. CONTINGENT LIABILITIES

A full search of the contingent liabilities of the Group has not been conducted. Any lawsuits or winding-up petitions against the Company will be subject to the Hong Kong Court's approval and the relevant claims will be subject to a formal adjudication process, dealt with and compromised under the restructuring scheme upon the completion of the restructuring with the Investor.

The Provisional Liquidators are not aware of any potential claim against the subsidiaries as at 31 December 2011 and 31 December 2010.

36. PLEDGE OF ASSETS

As at 31 December 2011, all the assets of Supreme Wit, a direct wholly-owned subsidiary of the Company, were pledged to the Investor by way of floating charge to secure the working capital facility granted by the Investor to the Group.

37. RELATED PARTY TRANSACTIONS

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 14 to the consolidated financial statements and all of the highest paid employees as disclosed in note 15 to the consolidated financial statements, is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Short-term employee benefits	2,318	554
Post-employment benefits	90	21
	<u>2,408</u>	<u>575</u>

38. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2012, the Company, the Provisional Liquidators, the Investor and Mr. Huang as the Guarantor entered into an agreement in relation to, among others, the Capital Restructuring, the Open Offer, the Share Subscription, the Scheme and a group reorganisation (the "Restructuring Agreement"). For details of the Restructuring Agreement, please refer to the announcement published on 26 March 2012.

Applications have been submitted to Hong Kong Court and Bermuda Court for leave to convene the Scheme meeting. On 20 March 2012, both the Hong Kong Court and Bermuda Court granted orders to convene the creditors' meeting to approve the Scheme. The meeting of the Scheme will be convened on 26 April 2012.

The Provisional Liquidators have provided regular updates on the status of the Group to the Hong Kong Court and suggested for the adjournment of granting the winding-up order against the Company. On 13 January 2012, the hearing of the Petition has been further adjourned to 16 July 2012.

39. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Name	Place of incorporation/ registration	Issued and paid-up capital/ registration capital	Percentage of ownership interest/ voting power/profit sharing		Principal activities
			2011	2010	
First China Technology Limited	British Virgin Islands	1,000 ordinary shares of US\$1 each	100%	100%	Investment holding
Smart Dragon International Trading Limited	Hong Kong	100 ordinary share of HK\$1 each	100%	100%	Investment holding
First China Technology (Hong Kong) Limited	Hong Kong	1 ordinary share of HK\$1 each	100%	100%	Inactive
Supreme Wit Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Investment holding
Trendy Leader Limited	Hong Kong	1 ordinary share of HK\$1 each	100%*	100%*	Trading and processing of food products
Highest Rich Limited	Hong Kong	1 ordinary share of HK\$1 each	100%*	100%*	Inactive
Pacific Prosper Limited	Hong Kong	1 ordinary share of HK\$1 each	100%*	100%*	Investment holding
Orient Legend International Limited	Hong Kong	10 ordinary share of HK\$1 each	100%*	100%*	Trading of food products

* These subsidiaries were indirectly held by the Company.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		9	17
Investment in subsidiaries		<u>—</u>	<u>—</u>
		<u>9</u>	<u>17</u>
Current assets			
Prepayments, deposits and other receivables		197	27
Amount due from a subsidiary*		1,380	875
Bank and cash balances		<u>6,786</u>	<u>6,775</u>
		<u>8,363</u>	<u>7,677</u>
Current liabilities			
Accruals, other payables and deposits received		201,048	196,713
Bank and other borrowings		170,555	177,192
Financial guarantee liabilities	<i>30</i>	<u>13,500</u>	<u>13,500</u>
		<u>385,103</u>	<u>387,405</u>
Net current liabilities		<u>(376,740)</u>	<u>(379,728)</u>
NET LIABILITIES		<u>(376,731)</u>	<u>(379,711)</u>
Capital and reserves			
Share capital	<i>31</i>	61,387	61,387
Reserves	<i>32</i>	<u>(438,118)</u>	<u>(441,098)</u>
TOTAL EQUITY		<u>(376,731)</u>	<u>(379,711)</u>

* The amount due from a subsidiary was unsecured, interest-free and had no fixed terms of repayment.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the reclassification of certain expenses previously classified under administrative expenses to restructuring costs. The new classification of the accounting items was considered to provide a more appropriate presentation of the financial results of the Group.

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2012.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

Set out below is an extract of the management discussion and analysis of the Group for the year ended 31 December 2009 as set out in the Company's annual report 2009. It should be noted that the auditor gave a disclaimer of opinion on the accounts for the year ended 31 December 2009 so that the analysis of the financial performance may be of limited value.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the "Company") herein presents its report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009.

BUSINESS REVIEW

The Company is an investment holding company. The Company, through its major subsidiaries, is principally engaged in the food processing, manufacturing and trading industry mainly including frozen marine and functional food products.

For the year ended 31 December 2009, the Group recorded turnover and gross profit of approximately RMB2,542,000 (2008: approximately RMB478,707,000) and approximately RMB37,000 (2008: approximately RMB206,788,000) respectively. Loss for the year attributable to equity holders of the Company was approximately RMB14,161,000 (2008: approximately RMB1,441,785,000). The Group's total turnover represented a decrease of approximately 99.47% as compared to 2008, while gross profit dropped approximately 99.98%.

Trading in the shares of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") has been suspended since 9:30 a.m. on 15 December 2008 at the request of the Company.

After the suspension, the whereabouts of Mr. Yeung Chung Lung ("Mr. Yeung"), the former executive Director and chairman, and Mr. Yang Le ("Mr. Yang"), a former executive Director, could not be confirmed. Given that the Board had difficulties in exercising the authority and control of the Company over some of its subsidiaries, the Board considered that, for the benefit of the creditors and the shareholders of the Company (the "Shareholders") as a whole, it was appropriate and necessary to appoint provisional liquidators to preserve the Company's assets and investigate into the affairs and financial condition of the Group.

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 the Hong Kong Special Administrative Region (the "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 Court. The Petition was filed with the Court on 7

January 2009 to effect the appointment. As such, the Provisional Liquidators do not have the same knowledge of the financial affairs of the Group as the Board would have, particularly in relation to the transactions entered into by the Group prior to their appointment date and the Board has been assisting the Provisional Liquidators to ascertain the Group's financial position since then.

The Provisional Liquidators have been investigating into the affairs of the Group and have taken all necessary actions to preserve the assets and to assess the situation of the subsidiaries in the People's Republic of China (the "PRC"). However, without the assistance of the former Directors, Mr. Yeung and Mr. Yang, who were also the legal representatives of the subsidiaries in the PRC, the Provisional Liquidators would not be able to proceed the same. As such, legal actions have been taken against Mr. Yeung and Mr. Yang in respective regions in the PRC for the possible damages to the Group resulting from their illegal possessions of the properties of the subsidiaries in the PRC, including but not limited to, the company chops and statutory certificates of the subsidiaries in the PRC. The status of the court cases as at the date of this report is as follows:

(i) *Fuqing Longyu Food Development Co., Limited ("Fuqing Longyu")*

The Fuzhou Intermediate People's Court (福州市中級人民法院) of Fujian Province, the PRC (the "Fuzhou Court") issued a judgment letter dated 28 July 2009 (the "Judgment Letter") in the Provisional Liquidators' favour with regard to the replacements of Fuqing Longyu's legal representative and board of directors. On 2 September 2009, Mr. Yeung filed an appeal against the decisions of the Judgment Letter. The hearing for the appeal lodged by Mr. Yeung was heard on 19 November 2009 at the Higher People's Court of Fujian Province (福建省高級人民法院). On 18 January 2010, the Provisional Liquidators were informed by the PRC legal adviser that the final decision for the appeal lodged by Mr. Yeung (the "Final Decision") was handed down on 21 December 2009 which upheld the Judgment Letter in the Provisional Liquidators' favour with regard to the replacement of Fuqing Longyu's legal representative and board of directors. The enforcement of the Final Decision was applied with the Fuzhou Court in early March and an enforcement notice had been issued on 12 April 2010 by the Fuzhou Court to the Administration of Industry and Commerce in Fuqing (福清市工商行政管理局).

(ii) *Jia Jing Commercial (Shanghai) Co., Limited ("Jia Jing (Shanghai)")*

On 3 September 2009, the case had been accepted by the People's Court of Pudong New District in Shanghai (the "Pudong Court"). The first and second hearings were heard on 14 October 2009 and 22 December 2009 at which no representatives of nor did Mr. Yang himself attend. On 26 February 2010, the Pudong Court ruled that the request for the return of the business licenses, certificates, common seal, contract seal and authorized representative's personal seal of Jia Jing (Shanghai) which were allegedly possessed by Mr. Yang, was not

supported. After consulting the PRC legal advisers, the Provisional Liquidators decided not to appeal against the Pudong Court's decision but to apply for re-issuance of company chops and statutory certificates.

(iii) *Ningbo Dingwei Food Development Co., Limited* (“Ningbo Dingwei”)

First China Technology Limited, a subsidiary of the Company and the immediate holding company of Ningbo Dingwei, attempted to file a statement of claim with the Ningbo Intermediate People's Court of Zhejiang Province (浙江省寧波市中級人民法院) but the filing was denied by the court.

LIQUIDITY AND FINANCIAL RESOURCES

The net cash outflow from operating activities for the year was approximately RMB2,699,000 as compared to a net cash inflow of approximately RMB2,712,000 in the previous year. Cash and cash equivalents as at 31 December 2009 amounted to approximately RMB6,487,000 (2008: approximately RMB529,000). The Group's gearing ratio measured on the basis of the Group's bank borrowings liabilities divided by total assets as at 31 December 2009 was not applicable as the Group had net deficiency in assets (2008: not applicable).

Liabilities and payables presented in the audited financial statements and this report are prepared according to the books and records and available information to the best of our knowledge.

RISK OF FOREIGN EXCHANGE FLUCTUATION

The Group's bank borrowings, bank and cash balances, and accruals and other payables were denominated in Hong Kong dollars, US dollars and Renminbi. At such, it will be subject to reasonable exchange rate exposures. However, the Group will closely monitor this risk exposure and would take prudent measures as appropriate. The Group's borrowings bore interest at floating rates.

In April 2007, the Company entered into an interest rate swap contract (the “Swap Contract”) with a notional amount of US\$100,000,000 with a commercial bank. On 3 November 2008, the commercial bank served the Company with a notice of early termination and made a claim against the Company for an amount of US\$15,927,075. Details are set out in note 28 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

Other than the Directors, the Group employed 1 staff in Hong Kong as at 31 December 2009. Remuneration package is reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments, the Group also provides other employment benefits such as a provident fund.

SIGNIFICANT INVESTMENTS AND ACQUISITION

On the basis of the available books and records, the Group did not have any significant investment nor did it make any material acquisition or disposal of subsidiaries and associates throughout the year ended 31 December 2009.

RESTRUCTURING OF THE GROUP

The Provisional Liquidators appointed Asian Capital (Corporate Finance) Limited (“Asian Capital”) as the financial adviser to the Company on 5 February 2009 to assist the Provisional Liquidators in identifying potential investors with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

On 12 March 2009, the Stock Exchange sent a letter to the Company stating that in view of the prolonged suspension of trading in the Shares, the delisting procedures set out in Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) applied to the Company and the Company had been put into the first stage of the delisting procedures which commenced on the date of suspension. If the Company failed to submit a viable resumption proposal to address certain conditions on or before 11 September 2009, the Stock Exchange might consider to proceed to place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules.

The Provisional Liquidators and Asian Capital used their best endeavours to source for potential investors with interest in the restructuring of the Company. Consequently, the restructuring proposal of Group Will Holdings Limited (the “Investor”) had been accepted by the Provisional Liquidators.

On 30 July 2009, an exclusivity agreement (the “Exclusivity Agreement”) was entered into among the Investor, Mr. Huang Kunyan, the Company and the Provisional Liquidators to grant the Investor a 12-month exclusivity period to prepare a viable resumption proposal to be submitted to the Stock Exchange with a view to resuming the trading in the Shares (the “Resumption Proposal”), and to negotiate in good faith for entering into a legally binding formal agreement (the “Formal Agreement”) for the implementation of the Resumption Proposal.

Pursuant to the Exclusivity Agreement, the Investor shall negotiate with the Provisional Liquidators to enter into an arrangement of working capital facility of up to HK\$10 million (or such higher sum the Investor may agree from time to time) for the settlement of the trading and operating expenses as are required to carry on and maintain a viable business of the sale of food products during the course of the proposed restructuring. Such working capital facility will be secured by a debenture with charge(s) over certain assets of the Group. With the sanction from the Court, the Investor and Supreme Wit Limited (“Supreme Wit”), a wholly owned subsidiary of the Company which was set up after the appointment of the Provisional Liquidators for the purpose of restructuring, on 12 April 2010 entered into a working capital facility agreement pursuant to which the Investor had agreed to provide a facility of up to

HK\$50 million (or such higher sum as the Investor may agree from time to time) (the “Working Capital Facility”) to Supreme Wit, and the Working Capital Facility had been secured by a debenture executed on 12 April 2010 by Supreme Wit in favour of the Investor.

Given the time constraints, the Company was unable to submit the Resumption Proposal by 11 September 2009 and the Company was placed into the second stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules on 18 September 2009.

While continuing to take necessary steps to regain the control of Fuqing Longyu, Jia Jing (Shanghai) and Ningbo Dingwei, the Group has been trying to resume normal business operations of the Group by recommencing the trading business through the subsidiaries of the Company. In the meantime, the Company has been actively looking for investment opportunities which can commercially benefit the Group.

By a letter dated 9 April 2010 from the Stock Exchange, the Company was placed into the third stage of delisting procedures pursuant to Practice Note 17 to the Listing Rules. The Stock Exchange announced this matter on 21 April 2010. The Company is now given to submit a viable resumption proposal 10 business days before 20 October 2010, which should meet the following conditions:

1. Demonstrate sufficient operations or assets to comply with Rule 13.24;
2. Address auditors’ qualifications and demonstrate adequate internal control system; and
3. Withdraw and/or dismiss the winding-up petition and discharge the Provisional Liquidators.

The Investor and the Company are currently reviewing the existing operations of the Group. The Company, with the assistance of Asian Capital and the Investor, are in the course of preparing the Resumption Proposal, and which will be submitted to the Stock Exchange as soon as practicable.

The proposed restructuring, if successfully implemented, among others, will result in:

- (i) a restructuring of the share capital of the Company through capital reduction, share consolidation, share subdivision and issue of new shares;
- (ii) all creditors of the Company discharging and waiving their claims against the Company by way of schemes of arrangement in Hong Kong and Bermuda as appropriate; and
- (iii) resumption of trading in the Shares upon completion of the proposed restructuring subject to the restoration of sufficient public float.

The Provisional Liquidators have provided regular updates on the status of the Group to the Court and suggested for the adjournment of granting the winding-up order against the Company. On 14 January 2010, the hearing of the Petition has been further adjourned to 19 July 2010.

PROSPECTS

The Provisional Liquidators have been working closely with the Investor in preparing the Resumption Proposal to be submitted to the Stock Exchange as soon as practicable.

Since entering into the Exclusivity Agreement and with the support of the Investor, the Company is steadily reviving its business operations. With the Working Capital Facility provided by the Investor, the Company expects to expand current existing business through expansion of its product portfolio and enlarge its customer base, and seek investment opportunity and/or acquisition target which could create synergy effect with the Group's existing business thus commercially benefit the Group.

In line with this development strategy, Pacific Prosper Limited ("Pacific Prosper"), a wholly-owned subsidiary of the Company entered into a sale and purchase agreement on 22 April 2010 with an independent third party pursuant to which Pacific Prosper agreed to acquire the entire issued capital of a target company which is engaged in the trading of frozen food and food processing. The Company believes that the proposed acquisition provides a good opportunity for the Company to generate synergy with the Group's existing business and expand its customer base and product portfolio.

With the strong support in the business and financial aspects from the Investor, the Group is confident to revive its existing businesses and achieve a substantial level of operations within a reasonable period of time.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 39 to the audited financial statements.

RESULTS AND DIVIDENDS

The loss of the Group for the year ended 31 December 2009 is set out in the financial statements on page 26 and the states of affairs of the Group and of the Company at that date are set out in the financial statements on pages 27 and 75.

No interim dividend was paid (2008: Nil) and a payment of the final dividend is not proposed for the year ended 31 December 2009 (2008: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 76. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 22 to the audited financial statements.

CAPITAL STRUCTURE

Details of the capital structure of the Company are set out in notes 29, 31, 33 and 34 to the audited financial statements.

7. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

Set out below is an extract of the management discussion and analysis of the Group for the year ended 31 December 2010 as set out in the Company's annual report 2010. It should be noted that the auditor gave a disclaimer of opinion on the accounts for the year ended 31 December 2010 so that the analysis of the financial performance may be of limited value.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the "Company") herein presents its report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

BUSINESS REVIEW

The Company is an investment holding company. The Company, through its major subsidiaries, is principally engaged in the processing and trading of food products mainly including frozen and functional food products.

For the year ended 31 December 2010, the Group recorded turnover and gross profit of approximately RMB144,006,000 (2009: approximately RMB2,542,000) and approximately RMB7,725,000 (2009: approximately RMB37,000) respectively. Loss for the year attributable to owners of the Company was approximately RMB4,277,000 (2009: approximately RMB14,161,000). The Group's total turnover represented an increase of approximately 5,600% as compared to the year 2009, while gross profit increased approximately 20,800%.

Trading in the shares of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 9:30 a.m. on 15 December 2008 at the request of the Company.

After the suspension, the whereabouts of Mr. Yeung Chung Lung ("Mr. Yeung"), the former executive Director and chairman, and Mr. Yang Le, a former executive Director, could not be confirmed. Given that the Board had difficulties in exercising the authority and control of the Company over some of its subsidiaries, the Board considered that, for the benefit of the creditors and the shareholders of the Company (the "Shareholders") as a whole, it was appropriate and necessary to appoint provisional liquidators to preserve the Company's assets and investigate into the affairs and financial condition of the Group.

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 the Hong Kong Special Administrative Region (the "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 Court. The Petition was filed with the Court on 7

January 2009 to effect the appointment. As such, the Provisional Liquidators do not have the same knowledge of the financial affairs of the Group as the Board would have, particularly in relation to the transactions entered into by the Group prior to their appointment date and the Board has been assisting the Provisional Liquidators to ascertain the Group's financial position since then.

The Provisional Liquidators have been investigating into the affairs of the Group and have taken all necessary actions to preserve the assets and to assess the situation of the subsidiaries in the People's Republic of China (the "PRC"). However, without the assistance of the former Directors, Mr. Yeung and Mr. Yang Le, who were also the legal representatives of the subsidiaries in the PRC, the Provisional Liquidators would not be able to proceed the same. As such, legal actions have been taken against Mr. Yeung and Mr. Yang Le in respective regions in the PRC for the possible damages to the Group resulting from their illegal possessions of the properties of the subsidiaries in the PRC, including but not limited to, the company chops and statutory certificates of the subsidiaries in the PRC. The status of the court cases as at the date of this report is as follows:

(i) *Fuqing Longyu Food Development Co., Limited ("Fuqing Longyu")*

The Fuzhou Intermediate People's Court (福州市中級人民法院) of Fujian Province, the PRC (the "Fuzhou Court") issued a judgment letter dated 28 July 2009 (the "Judgment Letter") in the Provisional Liquidators' favour with regard to the replacements of Fuqing Longyu's legal representative and board of directors. On 2 September 2009, Mr. Yeung filed an appeal against the decisions of the Judgment Letter. The hearing for the appeal lodged by Mr. Yeung was heard on 19 November 2009 at the Higher People's Court of Fujian Province (福建省高級人民法院). On 18 January 2010, the Provisional Liquidators were informed by the PRC legal advisor that the final decision for the appeal had been handed down on 21 December 2009 which upheld the Judgment Letter in the Provisional Liquidators' favour with regard to the replacements of Fuqing Longyu's legal representative and board of directors. The enforcement of the Final Decision was applied with the Fuzhou Court in early March and an enforcement notice had been issued on 12 April 2010 by the Fuzhou Court to the Administration of Industry and Commerce in Fuqing (福清市工商行政管理局) (the "Fuqing AIC"). The Provisional Liquidators were informed by the PRC legal advisor, based on his recent visit to the Fuqing AIC in May 2010 and to the Foreign Trade and Economic Cooperation Bureau in Fuqing (福清市對外貿易經濟合作局) ("Fuqing FTECB") in July 2010, that the changes of the board and the legal representative of Fuqing Longyu have not been effected despite the enforcement notices having been issued to both authorities by the Fuzhou Court.

As such, the Provisional Liquidators have written to the Fujian Provincial Department of Foreign Trade and Economic Cooperation (the "Fujian FTECB") (福建省對外貿易經濟合作廳), the Hong Kong Economic and Trade Office in Guangdong of the Government of the Hong Kong Special Administrative Region (the "HKETO") (香港特別行政區政府駐粵經濟貿易辦事處) and the Ministry of Commerce of the PRC (中華人民共和國商務部) informing the difficulties

encountered and seeking their assistance in replacing the board and the legal representative of Fuqing Longyu. The HKETO issued letters to the Fujian FTECB and the Higher People's Court of Fujian province in late August 2010.

Given that the Fuqing FTECB failed unjustifiably to respond to the Provisional Liquidators' request, the Provisional Liquidators sought legal advice from the PRC legal advisor and are preparing to take out a legal action against the Fuqing FTECB.

The Provisional Liquidators were informed by the Fujian Branch of Bank of China (the "BOC Fujian") (中國銀行－福建省分行) in the PRC that the BOC Fujian had obtained a judgment against Fuqing Longyu in relation to a loan granted to Fuqing Longyu and is taking steps to dispose of certain collaterals to repay the loan. Since the replacement of the board and the legal representative of Fuqing Longyu has not been effected by Fuqing AIC, the BOC Fujian has not provided the Provisional Liquidators with the details of the abovementioned legal action.

(ii) Jia Jing Commercial (Shanghai) Co., Limited ("Jia Jing (Shanghai)")

After consulting the PRC legal advisor, the Provisional Liquidators are taking appropriate steps to apply for reissuance of company chops and statutory certificates of Jia Jing (Shanghai).

(iii) Ningbo Dingwei Food Development Co., Limited ("Ningbo Dingwei")

First China Technology Limited, a subsidiary of the Company and the immediate holding company of Ningbo Dingwei, attempted to file a statement of claim with the Ningbo Intermediate People's Court of Zhejiang Province (the "Ningbo Court") (浙江省寧波市中級人民法院) but the filing was denied by the Ningbo Court. After consulting the PRC legal advisor, the Provisional Liquidators are taking appropriate steps to prepare a revised statement of claim to be filed with the Ningbo Court.

As mentioned in the section headed "Restructuring of the Group" below, with the Working Capital Facility provided by the Investor, the Group has restored its trading business operations in the second half of 2009.

To further extend the Group's geographical coverage and enlarge the scale of its operations, in April 2010, Pacific Prosper Limited ("Pacific Prosper"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, pursuant to which Pacific Prosper agreed to acquire the entire issued share capital of Orient Legend International Limited ("Orient Legend"), which is engaged in the trading of frozen food and food processing for an aggregate cash consideration of HK\$10 million (the "Acquisition"). The completion of the Acquisition took place on 4 October 2010.

In order to have better control over the raw materials quality and enhance the profitability of the Group, in April 2010, Trendy Leader Limited (“Trendy Leader”), an indirect wholly-owned subsidiary of the Company, and an independent third party entered into a leasing agreement, pursuant to which Trendy Leader leased fish ponds with a total area of approximately 7 hectares located in Jiangmen, Guangdong Province, the PRC for a period of 3 years.

To expand the Group’s existing business operations, Trendy Leader entered into a processing agreement with an independent third party in April 2010, which owns processing lines located in Jiangmen, Guangdong Province, the PRC (the “Processing Agreement”). Pursuant to the Processing Agreement, Trendy Leader will, among others, provide the raw materials, supplements and packaging materials while the said independent third party will provide processing services to process the frozen fish products in accordance with the specifications and time constraint given by Trendy Leader.

To intensify and strengthen the value-added services of the Group through the processing plant in Jiangmen by taking advantage of the established trading volume already achieved by Orient Legend and Trendy Leader, on 5 October 2010, Pacific Prosper, Mr. Wong Chi Ho and Mr. Wong King Luen entered into an agreement (the “Sincere Gold Agreement”). Details of the Sincere Gold Agreement are published in the circular of the Company dated 17 December 2010. The transactions contemplated under the Sincere Gold Agreement were approved by the Shareholders at the special general meeting held on 4 January 2011.

For the year ended 31 December 2010, the Group recorded turnover and gross profit of approximately RMB144,006,000 (2009: approximately RMB2,542,000) and approximately RMB7,725,000 (2009: approximately RMB37,000) respectively. Loss for the year attributable to owners of the Company was approximately RMB4,277,000 (2009: approximately RMB14,161,000). The Group’s total turnover represented an increase of approximately 5,600% as compared to the year 2009, while gross profit increased approximately 20,800%. Loss for the year attributable to owners of the Company decreased approximately 70% as compared to 2009.

LIQUIDITY AND FINANCIAL RESOURCES

The net cash outflow from operating activities for the year was approximately RMB19,389,000 as compared to a net cash outflow of approximately RMB2,699,000 in the previous year. Cash and cash equivalents as at 31 December 2010 amounted to approximately RMB13,485,000 (2009: approximately RMB6,487,000). The Group’s gearing ratio measured on the basis of the Group’s bank borrowings liabilities divided by total assets as at 31 December 2010 was not applicable as the Group had net deficiency in assets (2009: not applicable).

Liabilities and payables presented in the consolidated financial statements and this report are prepared according to the books and records and available information to the best of our knowledge.

RISK OF FOREIGN EXCHANGE FLUCTUATION

The Group's bank borrowings, bank and cash balances, and accruals and other payables were denominated in Hong Kong dollars, US dollars and Renminbi. At such, it will be subject to reasonable exchange rate exposures. However, the Group will closely monitor this risk exposure and would take prudent measures as appropriate. The Group's borrowings bore interest at floating rates.

In April 2007, the Company entered into an interest rate swap contract with a notional amount of US\$100,000,000 with a commercial bank. On 3 November 2008, the commercial bank served the Company with a notice of early termination and made a claim against the Company for an amount of US\$15,927,075. Details are set out in note 27 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

Other than the Directors, the Group employed 8 staff in Hong Kong and 3 staff in the PRC as at 31 December 2010. Details of the remuneration have been disclosed in notes 11 and 14 to the consolidated financial statements.

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

SIGNIFICANT INVESTMENTS AND ACQUISITION

Pacific Prosper, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement in April 2010 with an independent third party to acquire a food trading and processing company. The Acquisition constituted a very substantial acquisition for the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and was approved by the Shareholders at a special general meeting of the Company held on 9 September 2010. The completion of the Acquisition took place on 4 October 2010.

The same wholly-owned subsidiary of the Company entered into an agreement to lease the rights of a processing plant for five years. The transaction constituted a major transaction for the Company under Chapter 14 of the Listing Rules and was approved by the Shareholders at a special general meeting of the Company held on 4 January 2011.

Further details of the very substantial acquisition and the major transaction are set out in the section headed "Business Review" above.

RESTRUCTURING OF THE GROUP

The Provisional Liquidators appointed Asian Capital (Corporate Finance) Limited (“Asian Capital”) as the financial advisor to the Company on 5 February 2009 to assist the Provisional Liquidators in identifying potential investors with a view to restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

On 12 March 2009, the Stock Exchange sent a letter to the Company stating that in view of the prolonged suspension of trading in the Shares, the delisting procedures set out in Practice Note 17 to the Listing Rules applied to the Company and the Company had been put into the first stage of the delisting procedures which commenced on the date of suspension. If the Company failed to submit a viable resumption proposal to address certain conditions on or before 11 September 2009, the Stock Exchange might consider proceeding to place the Company in the second stage of the delisting procedures pursuant to Practice Note 17 to the Listing Rules.

The Provisional Liquidators and Asian Capital used their best endeavours to source for potential investors with interest in the restructuring of the Company. Consequently, the restructuring proposal of Group Will Holdings Limited (the “Investor”) had been accepted by the Provisional Liquidators.

On 30 July 2009, an exclusivity agreement (the “Exclusivity Agreement”) was entered into among the Investor, Mr. Huang Kunyan, the Company and the Provisional Liquidators to grant the Investor a 12-month exclusivity period to prepare a viable resumption proposal to be submitted to the Stock Exchange with a view to resuming the trading in the Shares, and to negotiate in good faith for entering into a legally binding formal agreement for the implementation of the resumption proposal. Since the exclusivity period has expired on 29 July 2010, in view of the Investor’s willingness and financial ability to pursue the restructuring and a supplemental agreement was entered into to grant an extension of the exclusivity period to the Investor to cover the remaining period before the deadline for submitting the resumption proposal.

Pursuant to the Exclusivity Agreement, the Investor shall negotiate with the Provisional Liquidators to enter into an arrangement of working capital facility of up to HK\$10 million (or such higher sum the Investor may agree from time to time) for the settlement of the trading and operating expenses as are required to carry on and maintain a viable business of the sale of food products during the course of the proposed restructuring. Such working capital facility will be secured by a debenture with charge(s) over certain assets of the Group. With the sanction from the Court, the Investor and Supreme Wit Limited (“Supreme Wit”), a direct wholly-owned subsidiary of the Company which was set up after the appointment of the Provisional Liquidators for the purpose of restructuring, on 12 April 2010 entered into a working capital facility agreement pursuant to which the Investor had agreed to provide a facility of up to HK\$50 million (or such higher sum as the Investor may agree from time to time) (the “Working Capital Facility”) to Supreme Wit, and the Working Capital Facility had been secured by a debenture executed on 12 April 2010 by Supreme Wit in favour of the Investor.

Given the time constraints, the Company was unable to submit the resumption proposal by 11 September 2009 and the Company was placed into the second stage of the delisting procedures in accordance with Practice Note 17 to the Listing Rules on 18 September 2009.

While continuing to take necessary steps to regain the control of Fuqing Longyu, Jia Jing (Shanghai) and Ningbo Dingwei, the Group has been trying to resume normal business operations of the Group with the aim to resuming the trading in the Shares.

By a letter dated 9 April 2010 from the Stock Exchange, the Company was placed into the third stage of delisting procedures pursuant to Practice Note 17 to the Listing Rules. The Stock Exchange announced this matter on 21 April 2010. The Company was given to submit a viable resumption proposal 10 business days before 20 October 2010, which should meet the following conditions:

1. Demonstrate sufficient operations or assets to comply with Rule 13.24;
2. Address auditor's qualifications and demonstrate adequate internal control system; and
3. Withdraw and/or dismiss the winding-up petition and discharge the Provisional Liquidators.

The proposed restructuring, if successfully implemented, among others, will result in:

1. a restructuring of the share capital of the Company through capital reduction, share consolidation, share subdivision and issue of new shares;
2. all creditors of the Company discharging and waiving their claims against the Company by way of schemes of arrangement in Hong Kong and Bermuda as appropriate; and
3. resumption of trading in the Shares upon completion of the proposed restructuring subject to the restoration of sufficient public float.

On 6 October 2010, Asian Capital and the Provisional Liquidators submitted a resumption proposal to the Stock Exchange (the "Resumption Proposal"). On 5 November 2010, the Listing Committee of the Stock Exchange (the "Listing Committee") rejected the Resumption Proposal. The Listing Committee considered that the Resumption Proposal had not satisfactorily demonstrated sufficiency of operation or assets as required under Rule 13.24 of the Listing Rules. Asian Capital filed an application for review (the "Review Application") on behalf of the Company to the Listing (Review) Committee of the Stock Exchange (the "Listing (Review) Committee") on 15 November 2010. The Review Application was initially fixed by the Listing (Review) Committee to be heard on 18 January 2011 (the "Review Hearing") and the Company was required to make a submission on or before 16 December 2010. To allow more time in preparing the submission for the Review Hearing, Asian Capital

applied to the Listing (Review) Committee to postpone the Review Hearing. The Review Hearing has been postponed to a date to be advised by the Stock Exchange and the Company is to make a submission on or before 21 February 2011.

The Provisional Liquidators have provided regular updates on the status of the Group to the Court and suggested for the adjournment of granting the winding-up order against the Company. On 14 January 2011, the hearing of the Petition has been further adjourned to 18 July 2011.

PROSPECTS

As discussed in the section headed “Business Review” above, since entering the Exclusivity Agreement, the Group has been steadily reviving its business operations. With the financial support from the Investor, the Group has resurrected its trading business, completed the acquisition of Orient Legend and entered into the Sincere Gold Agreement. The Group is in the process of integrating and streamlining its business operations. The Company believes that the in-house processing capabilities, the storage facility and the synergy effects generated from the business integration will position the Group in a better position to capture more market opportunities with higher profit margin. It is also expected that after completion of the Sincere Gold Agreement, and with the in-house processing capabilities, more products under trading orders received by the Group will be processed by the Jiangmen processing plant, which will result in higher profit margin of the Company.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 37 to the consolidated financial statements.

8. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

The board (the “Board”) of directors (the “Directors”) of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “Company”) herein presents its report together with the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2011.

FINANCIAL REVIEW

For the year ended 31 December 2011, the Group recorded a turnover and a gross profit of approximately RMB730,660,000 (2010: approximately RMB144,006,000) and approximately RMB20,442,000 (2010: approximately RMB7,725,000) respectively. Profit for the year attributable to owners of the Company was approximately RMB2,273,000 (2010: loss of approximately RMB4,277,000). The Group’s total turnover represented an increase of 407.38% as compared to the year 2010, while the Group’s gross profit surged by approximately 164.62%. The Group’s profit from operations for the year ended 31 December 2011 was approximately RMB15,416,000 (equivalent to approximately HK\$18,594,000) (2010: profit of approximately RMB6,180,000 (equivalent to approximately HK\$6,961,000)).

The increase in turnover of the Group was largely due to increase in contribution from Orient Legend International Limited (“Orient Legend”) which became a subsidiary of the Group in October 2010 as well as increase in turnover from sales of food products to North America, Hong Kong and other south-east asian countries from the food processing business of the Group. With the increase in demand of frozen food products from the People’s Republic of China (the “PRC”) customers, the sales volume of Orient Legend increased substantially in 2011 with turnover, on a full year comparison basis, by almost 3 times to approximately RMB639 million in 2011.

With the increase in turnover of the Group, the gross profit of the Group increased substantially from approximately RMB7,725,000 in 2010 to approximately RMB20,442,000 in 2011. Moreover, in February 2011, the Sincere Gold Agreement (as defined under section “Business Review”) was completed as announced by the Company on 21 February 2011. Thereafter, the Group began to optimise the capacity of the food processing facilities leased under the Sincere Gold Agreement by providing food processing services to customers and deriving processing fee income of approximately RMB5,500,000 in the year 2011 which forms another value-added service and profit stream of the Group.

BUSINESS REVIEW

The Company is an investment holding company. The Company, through its major subsidiaries, is principally engaged in the processing and trading of food products mainly including frozen and functional food products.

During 2011 financial year, the Company strived to integrate the different aspects of business operations to improve its overall operations despite the volatility of the global economic environment, the European debt crises and the economic downturn in the US in 2011. In particular, the Thailand flood in 2011 led to unstable supplies of raw materials as well as an increase in costs of the Group's sourcing.

Since October 2010, when the acquisition of Orient Legend completed, Orient Legend has contributed significantly to the sales of the Group. Despite relatively low profit margin, the Company believes that trading business of Orient Legend has enabled the Group to re-establish a trading platform to extend the Group's geographical coverage and enlarge the scale of the Group's operations. In order to intensify and strengthen the value-added services of the Group through the Jiangmen processing plant by taking advantage of the established trading volume already achieved by the Group, in October 2010, Pacific Prosper Limited ("Pacific Prosper"), a wholly-owned subsidiary of the Company, entered into a processing agreement with two independent third parties which have production and processing facilities in Jiangmen, Guangdong Province, the PRC (the "Sincere Gold Agreement") which was completed in February 2011. With the in-house processing capabilities under the arrangement of the Sincere Gold Agreement, more products covered by the trading orders received by the Group have been processed by the Jiangmen processing plant. In addition, the Group also started to provide food processing services for customers and deriving processing income during the 2011 financial year.

In addition, to further expand the Group's business, the Group had already begun the distribution of frozen foods products in Beijing area, as a first step, in the second half of 2011 as we recognised a strong demand for frozen food products in the PRC.

As announced on 10 June 2011, the Group intended to acquire a seafood trading business, namely Sprintech Development Limited to intensify the seafood trading business, expanding its scale and maximizing the use of cold storage and food processing capabilities obtained through the Sincere Gold Agreement ("Acquisition of Sprintech"). As the conditions set out in the agreement for the Acquisition of Sprintech (the "Agreement") have not been satisfied on or before the date falling on the sixth calendar month from the date of the Agreement, the Agreement has been terminated pursuant to the terms of the Agreement. Such termination has no material adverse effect on the Group's business operations and its financial position.

LIQUIDITY AND FINANCIAL RESOURCES

The net cash outflow from operating activities for the year was approximately RMB20,413,000 as compared to a net cash outflow of approximately RMB19,389,000 in the previous year. Cash and cash equivalents as at 31 December 2011 amounted to approximately RMB29,586,000 (2010: approximately RMB13,485,000). The Group's gearing ratio measured on the basis of the Group's bank and other borrowings divided by total equity as at 31 December 2011 was not applicable as the Group had net deficiency in total equity (2010: not applicable).

Liabilities and payables presented in the consolidated financial statements and this report are prepared according to the books and records and available information to the best of our knowledge.

RISK OF FOREIGN EXCHANGE FLUCTUATION

The Group's bank and other borrowings, bank and cash balances, and accruals, other payables and deposits received were mainly denominated in Hong Kong dollars, US dollars and Renminbi. As such, it will be subject to reasonable exchange rate exposures. However, the Group will closely monitor this risk exposure and would take prudent measures as appropriate. The Group's bank borrowings bear interest at floating rates.

In April 2007, the Company entered into an interest rate swap contract with a notional amount of US\$100,000,000 with a commercial bank. On 3 November 2008, the commercial bank served the Company with a notice of early termination and made a claim against the Company. As at 31 December 2011, the said claim had a carrying amount of US\$15,979,544 (equivalent to approximately RMB101,648,000). Details are set out in note 28 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

Other than the Directors, the Group employed 14 staff in Hong Kong and 3 staff in the PRC as at 31 December 2011. Details of the remuneration have been disclosed in notes 12 and 15 to the consolidated financial statements.

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

SIGNIFICANT INVESTMENTS AND ACQUISITION

A wholly-owned subsidiary of the Company entered into the Agreement in June 2011 with an independent third party to acquire an investment holding company which own a subsidiary principally engaged in the trading of frozen seafood. As the conditions set out in the Agreement have not been satisfied on or before the date falling on the sixth calendar month from the date of the Agreement, the Agreement has been terminated pursuant to the terms of the Agreement. Details of the proposed acquisition are set out in the section headed "Business Review" above.

RESTRUCTURING OF THE GROUP

Trading in the shares of the Company (the “Shares”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has been suspended since 9:30 a.m. on 15 December 2008 at the request of the Company. Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai were appointed as the joint and several provisional liquidators (the “Provisional Liquidators”) by the High Court of the Hong Kong Special Administrative Region (the “Hong Kong Court”) on 6 January 2009.

The Provisional Liquidators have been investigating into the affairs of the Group and have taken all necessary actions to preserve the assets and to assess the situation of the subsidiaries in the PRC. However, without the assistance of the former executive Directors, Mr. Yeung Chung Lung (“Mr. Yeung”) and Mr. Yang Le (“Mr. Yang”), who were the legal representatives of the subsidiaries in the PRC, the Provisional Liquidators would not be able to proceed the same. As such, legal actions have been taken against Mr. Yeung and Mr. Yang, in respective regions in the PRC for the possible damages to the Group resulting from their illegal possessions of the properties of the subsidiaries in the PRC, including but not limited to, the company chops and statutory certificates of the subsidiaries in the PRC. As the Provisional Liquidators have encountered difficulties in recovering the assets in the PRC, without funding from creditors or other third parties, the Provisional Liquidators are unable to pursue the existing actions any further.

On 6 October 2010, Asian Capital (Corporate Finance) Limited (“Asian Capital”), the financial advisor to the Company, and the Provisional Liquidators submitted a resumption proposal to the Stock Exchange (the “Resumption Proposal”).

On 30 September 2011, the Listing Appeals Committee of the Stock Exchange (the “Listing Appeals Committee”) decided to accept the Resumption Proposal set out in the Company’s submission (the “Resumption Submission”), subject to the Company’s compliance with the following conditions (the “Resumption Conditions”) to the satisfaction of the Listing Division of the Stock Exchange (the “Listing Division”) as extracted and disclosed below:

- 1) the Company’s operating profit for the year ending 2011 should not be less than HK\$18 million;
- 2) obtaining approval from the Company’s shareholders and the relevant courts (where applicable) for conditions 3 to 6;
- 3) completion of the arrangement for the capital reorganisation (the “Capital Restructuring”), which comprises the capital reduction, capital cancellation, share consolidation and the increase in authorised share capital as set out in the Resumption Submission;
- 4) completion of an open offer (the “Open Offer”) on the basis of 7 offer shares (the “Offer Shares”) for every one new share of the Company after the capital reorganization at HK\$0.5622 each to be fully underwritten by Group Will Holdings Limited (the “Investor”) as set out in the Resumption Submission;

- 5) obtaining the requisite creditors' approval for the debt restructuring/schemes of arrangement (with the relevant sanction from courts thereafter), under which a cash payment of HK\$62 million out of the proceeds from the share subscription by the Investor will be paid to the Company's creditors and the Company will issue 14,823,936 new shares after the capital reorganization to the creditors of the Company or the scheme administrators for the benefit of the Company's creditors who agree to enter into the schemes of arrangement;
- 6) obtaining approval from the Executive of the Securities and Futures Commission (the "SFC") for both the whitewash waiver and the special deal as set out in the Resumption Submission;
- 7) production of a written confirmation to the Listing Division by an independent auditor confirming the following:
 - a. completion of the share subscription of 266,830,850 new shares of the Company (the "Subscription Shares") after the capital reorganization by the Investor at the subscription price of HK\$0.5622 each at a total consideration of HK\$150 million (the "Share Subscription"); and
 - b. the net proceeds from the Share Subscription by the Investor are held by a bank in Hong Kong in the name of the Company;
- 8) full payment of all and any outstanding listing fees by the Company;
- 9) cancellation of the debenture over the assets of Supreme Wit Limited ("Supreme Wit"), a direct wholly-owned subsidiary of the Company;
- 10) confirmation from the Provisional Liquidators, with supporting information, as to the working capital sufficiency of the Company up to and at least twelve months after the date of resumption;
- 11) if resumption of trading does not take place before 1 April 2012, the Company to have published its audited accounts for the year ending 31 December 2011; and
- 12) the Investor to place down its shares to restore public float (as necessary) within one month of resumption of trading.

Save for conditions 11 and 12, all of the Resumption Conditions must be complied with to the satisfaction of the Listing Division within six months from the date of the decision letter. The deadline may be extended by the Listing Division on good cause being shown by the Company. The Company, the Provisional Liquidators and the Investor are now taking appropriate steps to fulfil the Resumption Conditions.

On 5 January 2012, the Company, the Provisional Liquidators, the Investor and Mr. Huang Kunyan ("Mr. Huang") as the guarantor (the "Guarantor") entered into an agreement to implement the proposed restructuring set out in the Resumption Submission.

According to the Resumption Submission, it is proposed that a scheme of arrangement for the Company under the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) and the Companies Act 1981 of Bermuda (as amended from time to time) to be made between the Company and its creditors (the “Scheme”). On 20 March 2012, both Hong Kong Court and Supreme Court of Bermuda (the “Bermuda Court”) granted orders to convene the creditors’ meeting to approve the Scheme. The meeting of the Scheme will be convened on 26 April 2012.

As it was expected that the Company would not be able to fully satisfy the Resumption Conditions within the deadline imposed by the Listing Appeals Committee on 28 March 2012, the Company made an application to the Listing Division to seek additional time for the Company to fully satisfy the Resumption Conditions.

The Provisional Liquidators have provided regular updates on the status of the Group to the Hong Kong Court and suggested for the adjournment of granting the winding-up order against the Company. On 13 January 2012, the hearing of the winding-up petition has been further adjourned to 16 July 2012.

PROSPECTS

The world economy continues to remain uncertain and the 2012 ahead is expected to be full of risk and challenge. However, the Group remains cautiously optimistic on our core business of processing and trading of foods products, especially by utilising the capacities of the food processing facilities leased under the Sincere Gold Agreement. The Group will continue to explore new customers in the PRC and diversify our products with a view to increase our sales through retail and wholesale channels. The Group will continue to prudently implement the above strategies for the benefit of the Group and all its stakeholders.

As set out in the section headed “Restructuring of the Group” above, on 30 September 2011, the Company received the in-principle approval from the Stock Exchange for the resumption of the trading in the Shares. The Company believes that with additional funds to be injected after completion of the proposed restructuring, the Group will be in a better position to capture more market opportunities in the future.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 39 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2011 is set out in the consolidated financial statements on page 25 of this report and the states of affairs of the Group and of the Company as at that date are set out in the consolidated financial statements on pages 26 and 71 of this report, respectively.

No interim dividend was paid (2010: Nil) and a payment of the final dividend is not proposed for the year ended 31 December 2011 (2010: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years as extracted from the audited consolidated financial statements and restated/reclassified as appropriate, is set out on page 72 of this report. This summary does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 20 to the consolidated financial statements.

CAPITAL STRUCTURE

Details of the capital structure of the Company are set out in notes 29 and 31 to the consolidated financial statements.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 35 to the consolidated financial statements.

COMMITMENTS

Details of the commitments of the Group are set out in note 34 to the consolidated financial statements.

CHARGES ON GROUP ASSETS

As disclosed under the heading “Restructuring of the Group” above and in notes 28 and 36 to the consolidated financial statements, the Investor and Supreme Wit entered into the working capital facility agreement on 12 April 2010 pursuant to which the Investor had agreed to provide the working capital facility to Supreme Wit. The working capital facility had been secured by a debenture of Supreme Wit on 12 April 2010 with a floating charge on all the assets issued by Supreme Wit executed in favour of the Investor. On 18 February 2011, the supplemental deeds were entered into, pursuant to which the Investor agreed to increase the said facility to the principal amount of up to HK\$70 million.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 31 to the consolidated financial statements.

RESERVES

As at 31 December 2011, the Company did not have any reserves available for distribution. Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's 5 largest customers accounted for approximately 71.65% of the total sales for the year and sales to the largest customer included therein amounted to approximately 32.21%. Purchases from the Group's 5 largest suppliers accounted for approximately 37.87% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 15.51%.

None of the Directors or any of their associates or shareholders (which, to the best knowledge of the Board, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's 5 largest customers and 5 largest suppliers.

DIRECTORS

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

Executive Director

Lee Wa Lun, Warren

Independent non-executive Directors

Wong Chi Keung (Chairman)

Leung King Yue, Alex

Lo Wai On (resigned with effect from 31 January 2011)

Tang Chi Chung, Matthew

APPENDIX II ADDITIONAL FINANCIAL INFORMATION OF THE GROUP

1. INDEBTEDNESS

As at the close of business on 31 May 2012, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had total outstanding borrowings of approximately RMB400.3 million, comprising bank and other borrowings of approximately RMB175.9 million, an amount due to a former director, namely Mr. Yeung Chung Lung, of approximately RMB55.7 million, an amount due to a director of its subsidiaries of approximately RMB2.9 million, the claim arising from a derivative financial instrument of approximately RMB101.4 million and an amount due to the Investor, of approximately RMB64.4 million which is secured by the way of floating charge of all assets of Supreme Wit, a directly wholly-owned subsidiary of the Company, to secure the amount advanced by the Investor to the Group.

As at the close of business on 31 May 2012, in addition to the above, the Group had financial guarantee liabilities of approximately RMB13.5 million arising from the corporate guarantees provided by the Company to its subsidiary over the bank loans maintained by the subsidiary which was deconsolidated from the consolidated financial statements of the Group since 1 July 2008.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 May 2012, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

2. WORKING CAPITAL

The Directors and the Provisional Liquidators are of the opinion that, having taking into account of the cash flows generated from the business operations of the Group and the proceeds from the Shares Subscription and the Open Offer, after the Resumption, the Group will have sufficient working capital for the twelve months from the date of the Resumption assuming the Resumption takes place on or before the end of September 2012.

3. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors and the Provisional Liquidators confirmed that, save for the Proposed Restructuring, there is no material change in the financial or trading position or outlook of the Group since 31 December 2011, the date to which the latest published audited financial statements of the Company were made up.

4. FINANCIAL AND TRADING PROSPECTS

It is anticipated that the financial position of the Group will be substantially improved upon (i) the successful implementation of the Restructuring Agreement; and (ii) the resumption of trading in the New Shares of the Company on the Stock Exchange. The Investor and the Provisional Liquidators anticipate all existing liabilities owed to the creditors whose claims are dealt with under the Scheme and the creditors of its subsidiaries holding guarantees given by the Company will be compromised and discharged through the Scheme.

Since 31 December 2011, being the date of the latest published audited financial statements of the Company, with the strong and continuous support provided by the Investor for the Group in terms of both business and financial aspects, the Group will continue to explore new customers in the PRC and diversify its products with a view to increasing sales through retail and wholesale channels. After resumption of trading in the New Shares, the Group will be in a better position to capture more market opportunities in the future.

**A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP**

The accompanying unaudited pro forma consolidated statement of financial position and the unaudited pro forma statement of adjusted consolidated net tangible assets (collectively the “**Unaudited Pro Forma Financial Information**”) of the Group has been prepared to illustrate the effect of the proposed restructuring might have affected the financial position and net tangible assets of the Group.

The Unaudited Pro Forma Financial Information of the Group as at 31 December 2011 is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2011 as extracted from annual report 2011 of the Company, as if the proposed restructuring had been completed on 31 December 2011.

The Unaudited Pro Forma Financial Information of the Group is prepared based on a number of assumptions, estimates, uncertainties and the currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information of the Group, it may not give a true picture of the actual financial position and net tangible assets of the Group that would have been attained had the proposed restructuring actually occurred on the date indicated herein. Furthermore, the Unaudited Pro Forma Financial Information of the Group does not purport to predict the Group’s future financial position and net tangible assets.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AS
AT 31 DECEMBER 2011

	Unadjusted consolidated statement of financial position of the Group as at 31 December 2011 <i>(note 1)</i> RMB'000	Capital Restructuring <i>(note 2)</i> RMB'000	Open Offer <i>(note 3)</i> RMB'000	Subscriptions and settlement of Restructuring Costs <i>(note 4)</i> RMB'000	Settlement of the liabilities of the Company under the Scheme <i>(note 5)</i> RMB'000	Group Reorganisation <i>(note 6)</i> RMB'000	Unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2011 RMB'000
Non-current assets							
Property, plant and equipment	210						210
Prepayments, deposits and other receivables	24,018						24,018
Goodwill	4,986						4,986
Deferred tax assets/(liabilities)	207					(216)	(9)
	<u>29,421</u>						<u>29,205</u>
Current assets							
Inventories	3,424						3,424
Trade receivables	39,072						39,072
Prepayments, deposits and other receivables	6,463						6,463
Bank and cash balances	29,586		46,268	50,949	(50,693)	(51)	76,059
	<u>78,545</u>						<u>125,018</u>
Current liabilities							
Trade and bills payables	13,745						13,745
Accruals, other payables and deposits received	261,365			(66,947)	(181,095)	(54)	13,269
Bank and other borrowings	176,278				(170,555)		5,723
Financial guarantee liabilities	13,500				(13,500)		-
Current tax liabilities	1,537						1,537
	<u>466,425</u>						<u>34,274</u>
Net current (liabilities)/assets	<u>(387,880)</u>						<u>90,744</u>
NET (LIABILITIES)/ASSETS	<u>(358,459)</u>						<u>119,949</u>
Capital and reserves							
Share capital	61,387	(61,233)	848	2,182	121		3,305
Share premium	300,028	(300,028)	45,420	120,473			165,893
Other reserves	101,117						101,117
Accumulated losses	(820,991)	361,261		(4,759)	314,336	(213)	(150,366)
TOTAL EQUITY	<u>(358,459)</u>						<u>119,949</u>
Unaudited consolidated net tangible liabilities per New Share before completion of the Proposed Restructuring <i>(note 7)</i>							<u>RMB(0.91)</u>
Unaudited pro forma adjusted consolidated net tangible assets per New Share after completion of the Proposed Restructuring <i>(note 8)</i>							<u>RMB0.29</u>

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**Notes:**

1. The unadjusted consolidated statement of financial position of the Group as at 31 December 2011 is extracted from the audited consolidated financial statements of the Company for the year ended 31 December 2011.
2. This adjustment represents the effect of the Capital Restructuring which includes:
 - (i) the Capital Reduction involving the reduction of the nominal value of all of the issued and unissued Shares from HK\$0.05 each to HK\$0.000125 each. As a result, the issued share capital of the Company will be reduced from approximately HK\$59,295,744 divided into 1,185,914,889 Shares of HK\$0.05 each to approximately HK\$148,239 divided into 1,185,914,889 Shares of HK\$0.000125 each. The decrease in the share capital of the Company of approximately HK\$59,147,505 (approximately RMB61,233,268) will be credited to the accumulated losses of the Company.
 - (ii) the Share Premium Reduction under which the entire amount of approximately HK\$299,180,969 (approximately RMB300,028,000) standing to the credit of the share premium account of the Company will be cancelled and applied to set off part of the accumulated losses of the Company.
3. This adjustment represents the issue of 103,767,552 Offer Shares under the Open Offer on the basis of seven Offer Shares for every one New Share held by the Qualifying Shareholders at the Offer Price of HK\$0.5622 per Offer Share with the par value of HK\$0.01 each. As a result of the Open Offer, the Group will raise net proceeds of approximately HK\$56,587,974 (approximately RMB46,268,000), increase its share capital of approximately HK\$1,037,676 (approximately RMB848,000) and its share premium of approximately HK\$55,550,298 (approximately RMB45,420,000) after deducting the expenses of approximately HK\$1,750,144 (approximately RMB1,431,000) relating to the Open Offer.
4. This adjustment represents the issue of 266,830,850 Subscription Shares at the Subscription Price of HK\$0.5622 per Subscription Share with the par value of HK\$0.01 each. As a result of the Share Subscription, the Group will raise gross proceeds of approximately HK\$150,012,304 from the Share Subscription (approximately RMB122,655,000) and the Company's share capital and share premium will be increased by approximately HK\$2,668,309 (approximately RMB2,182,000) and approximately HK\$147,343,995 (approximately RMB120,473,000) respectively. The proceeds from the Share Subscription will be applied for:

- (i) payment of the Restructuring Costs of HK\$18,000,000 (approximately RMB14,717,000), of which (a) an amount of approximately RMB8,994,000 had been paid out in cash and recognised as “amount due to the Investor” and (b) an amount of approximately RMB2,115,000 had not been settled and recognised as “accruals and other payables” as at 31 December 2011; and (c) an amount of approximately RMB3,608,000 which is to be recognised as expenses and settled by the subscription money;
- (ii) set-off of the Earnest Money of HK\$5,000,000 (approximately RMB4,100,000) paid by the Investor and had been recognised as “amount due to the Investor” as at 31 December 2011;
- (iii) set-off of the advances pursuant to the Exclusivity Agreement and the Working Capital Facility Agreement totalling of approximately RMB47,127,000 drawdown by the Group which had been recognised as “amount due to the Investor” as at 31 December 2011;
- (iv) payment of the expenses contributions of HK\$4,000,000 (approximately RMB3,271,000), of which (a) an amount of approximately RMB1,635,000 had been paid out in cash and recognised as “amount due to the Investor” as at 31 December 2011; (b) an amount of approximately RMB485,000 had not been settled and recognised as “accruals and other payables” as at 31 December 2011; and (c) an amount of approximately RMB1,151,000 which is to be recognised as expenses and settled by the subscription money; and
- (v) set-off of the other advancement of approximately RMB2,491,000 which had been recognised as “amount due to the Investor” as at 31 December 2011.

As a result, the Group shall incur an expense totalling of approximately RMB4,759,000 due to the balances of the Restructuring Costs of approximately RMB3,608,000 from 4(i) above and of the expenses contributions of approximately RMB1,151,000 from 4(iv) above which are to be recognised and settled by the subscription money payable by the Investor for the Share Subscription. After payment of the fees and expenses above totalling of approximately RMB71,706,000, the net cash proceeds will be approximately RMB50,949,000.

- 5. This adjustment represents the settlement of the liabilities of the Company by way of the Scheme, under which its accruals, other payables and deposits received of approximately RMB181,095,000, bank borrowings of approximately RMB170,555,000 and financial guarantees provided by the Company to a deconsolidated subsidiary of RMB13,500,000 will be compromised and discharged, and in return:
 - (i) a cash payment of HK\$62,000,000 (approximately RMB50,693,000) out of the proceeds from the Share Subscription will be paid to the Creditors;

- (ii) 14,823,936 Creditors Shares will be issued at par value and allotted as fully paid by the Company to the Creditors; and

Upon the discharge of the Company's liabilities under the Scheme, the Company will recognise a net gain of approximately RMB314,336,000 representing the difference between the total liabilities of approximately RMB365,150,000 to be compromised and discharged under the Scheme and the total settlement amount of approximately RMB50,814,000 to be made (including the Cash Settlement and the issue of the Creditors Shares).

6. This adjustment represents the Group Reorganisation in which the Provisional Liquidators and the Company shall transfer the entire share capital and/or equity interests of the Excluded Companies, which were directly or indirectly held by the Company, to a nominee of the Scheme Administrators for a nominal consideration of HK\$1. After such transfer, dividend distribution by/recovery from the Excluded Companies, if any, will be distributed for the benefit of the Creditors. As at 31 December 2011, the Excluded Companies have net assets of approximately RMB213,000, comprising deferred tax assets of approximately RMB216,000, bank and cash balances of approximately RMB51,000 and accruals, other payables and deposits received of approximately RMB54,000. Upon completion of the Group Reorganisation, the Excluded Companies carrying net assets of approximately RMB213,000 are disposed of and as a result, a loss of approximately RMB213,000 is recognised by the Group.
7. It is based on the unaudited consolidated net tangible liabilities of the Group of approximately RMB363,445,000 (based on the deficiency of equity of approximately RMB358,459,000 excluding the goodwill of approximately RMB4,986,000 as at 31 December 2011) divided by 400,246,274 New Shares.
8. It is based on the unaudited pro forma adjusted consolidated net tangible assets of the Group after completion of the Proposed Restructuring of approximately RMB114,963,000 (based on the unaudited pro forma equity of approximately RMB119,949,000 excluding the goodwill of approximately RMB4,986,000) divided by 400,246,274 New Shares.



12 July 2012

The Provisional Liquidators and the Directors
First Natural Foods Holdings Limited
(Provisional Liquidators Appointed)

Dear Sirs,

We report on the unaudited pro forma consolidated statement of financial position and the unaudited pro forma statement of adjusted consolidated net tangible assets (collectively the “Unaudited Pro Forma Financial Information”) of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the Provisional Liquidators and the directors of the Company (the “Directors”), for illustrative purposes only, to provide information about how the proposed restructuring might have affected the financial position and net tangible assets of the Group presented, for inclusion in Appendix III to the circular of the Company dated 12 July 2012 (the “Circular”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-1 to III-5 to the Circular.

Respective Responsibilities of Provisional Liquidators and Directors of the Company and Reporting Accountant

It is the responsibilities solely of the Provisional Liquidators and the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the

evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Provisional Liquidators and the Directors. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Provisional Liquidators and the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the Provisional Liquidators and the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position and net tangible assets of the Group as at 31 December 2011 or any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Provisional Liquidators and the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong

APPENDIX V PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2012

(1) PROFIT FORECAST

On the basis and assumptions as set forth below, and in the absence of unforeseen circumstances, the Company forecasts that the consolidated profit attributable to owners of the Company and earnings per New Share for the year ending 31 December 2012 will be:

	Consolidated profit attributable to owners of the Company	Earnings per New Share
Including all effects of the Resumption related costs, income and gain (<i>note 1</i>)	no less than HK\$393.8 million	no less than HK98 cents
Excluding all effects of the Resumption related costs, income and gain (<i>note 1</i>)	no less than HK\$19.2 million	no less than HK4.8 cents

Notes:

1. The effects of the Resumption related costs, income and gain refer to the effects of: (i) the estimated restructuring related costs and expenses; (ii) expected net gain on release of bank loans and other liabilities upon completion of the Scheme and the Group Reorganisation; and (iii) the discharge of the finance costs upon completion of the Scheme, as set out in the assumptions (i), (j), (k) and (l) respectively in paragraphs headed "Major Bases and Assumptions" below. The forecast for the consolidated profit attributable to owners of the Company for the year ending 31 December 2012 is prepared based on the assumption to include/exclude the effects of the Resumption related costs, income and gain as aforesaid.
2. The forecast for the consolidated profit attributable to owners of the Company for the year ending 31 December 2012 is prepared based on the assumptions summarised in the paragraphs below.

(2) MAJOR BASES AND ASSUMPTIONS

The Profit Forecast has been prepared on the basis of accounting policies consistent in all material respects with Hong Kong Financial Reporting Standards as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2011, and on the following assumptions:

- (a) The Proposed Restructuring will be successfully implemented and completed in September 2012. Upon Completion, the winding-up petition against the Company will be withdrawn and the Provisional Liquidators will be discharged.
- (b) The Restructured Group will be able to continue its business as a going concern.
- (c) There will be no material changes in the existing or political, legal, fiscal, market or economic conditions in Hong Kong, the PRC, Canada and most countries in Southeast Asia, in which the Restructured Group operates or which are otherwise material to the Restructured Group's business operations.

APPENDIX V PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2012

- (d) There will be no material changes in the rates of taxation applicable to the activities of the Restructured Group in the operating regions. The Restructured Group will not be materially and adversely affected by changes in the tax base or the rates of taxation. The Company is subject to the profit tax rate of 16.5% in Hong Kong.
- (e) There will be no material changes in inflation rates, interest rates or foreign exchange rates from those presently prevailing in the context of the Restructured Group's operations. The conversion of RMB to HK\$ is based on the approximately exchange rate of RMB0.8176 to HK\$1 throughout the forecast period.
- (f) There will be no significant change in the existing accounting policies, key accounting estimates including (i) property, plant and equipment and depreciation, (ii) impairment of goodwill, (iii) impairment loss for bad and doubtful debts and (iv) write-down for inventories, all of which were mentioned in the audited consolidated financial statements of the Company for the year ended 31 December 2011. The financial statements of the Profit Forecast have been prepared on a going concern basis, consistent with the Group's published financial statements, on the assumption that the Proposed Restructuring will be successfully completed, and subsequently, the Restructured Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.
- (g) The Restructured Group's operations and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, catastrophes, epidemics, supply failure, labor dispute, significant lawsuit and arbitration.
- (h) Despite the uncertainty of the market and economic environment, Orient Legend as the major the trading arm of the Company recorded a turnover of approximately HK\$639 million for the year ended 31 December 2011, representing an approximately three times of the turnover recorded for the year ended 31 December 2010. Since the completion of the Sincere Gold Agreement in February 2011, Trendy Leader as another major operating subsidiary of the Company also experienced a substantial increase in turnover, and recorded a turnover of approximately HK\$94 million for the year ended 31 December 2011. As a result, sales of the Group for the financial year ended 31 December 2011 increased approximately over four times compared with the financial year ended 31 December 2010. In addition, as mentioned in paragraph headed "Customers of the Group" in section headed "Letter from the Board and the Provisional Liquidators" in this circular, the Group began to distribute processed food products in selected chained-supermarket store in Beijing in the second half of 2011. Furthermore, with the additional funds to be raised through the Open Offer and the Share Subscription, the Restructured Group will be able to have more working capital for the expansion of business operations. Therefore, based on the latest management accounts of the Group, sales orders on hand from the Group's customers, the arrangement under the Sincere Gold Agreement, the expected

APPENDIX V PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2012

completion of the Proposed Restructuring in September 2012, it is assumed that the sales of the Restructured Group can increase approximately 18% for the year ending 31 December 2012 compared with year ended 31 December 2011.

- (i) It is expected that approximately HK\$8.4 million will be incurred as the restructuring costs and expenses for the year ending 31 December 2012.
- (j) As upon completion of the Scheme, all the claims against, and liabilities of the Company (excluding the normal operating liabilities incurred during the ordinary course of business operations of the Restructured Group) will be discharged and compromised in full, it is assumed that there will be a net gain of approximately HK\$387.4 million (including the loss of approximately HK\$0.3 million arising from the Group Reorganisation as mentioned in assumption (l) below) on release of banks loans and other liabilities (including accruals, other payables and deposit of approximately HK\$225.9 million, bank borrowings of approximately HK\$208.6 million and financial guarantees provide by the Company to a deconsolidated subsidiary of approximately HK\$15.3 million) upon completion of the Scheme for the year ending 31 December 2012.
- (k) It is expected that approximately HK\$4.4 million of finance costs, which accrued from the bank borrowings of the Company before the appointment of the Provisional Liquidators, will be compromised and discharged under the Scheme for the year ending 31 December 2012.
- (l) As under the Group Reorganisation, all the share capital and/or equity interests of the Excluded Companies with carrying net assets value of approximately HK\$260,000 will be transferred to a nominee of the Scheme Administrators for a nominal consideration of HK\$1.00 for the benefit of the Creditors under the Scheme, it is assumed that a loss of approximately HK\$260,000 will be recognized as the result of the Group Reorganisation.
- (m) It is assumed that all license and permits (including these under the Sincere Gold Agreement), required for the operation of the Restructured Group's businesses in its normal and ordinary course of business will remain effective or be obtained and that the Restructured Group is able to successfully renew or obtain all licenses and permits when they become expired.
- (n) The earnings per New Share is calculated using the consolidated profit attributable to owners of the Company including/excluding all the Resumption related costs, income and gain divided by 400,246,274 New Shares outstanding immediately upon the Resumption.

LETTERS

The texts of letters received by the Directors and the Provisional Liquidators from the Company's reporting accountants and the financial adviser in connection with the Profit Forecast, in each case prepared for the purpose of incorporation in this circular, are set out below.

(1) LETTER FROM THE REPORTING ACCOUNTANT ON THE PROFIT FORECAST

The following is the text of a letter received from ANDA CPA Limited, for the purpose of incorporation in this circular.



12 July 2012

**TO THE PROVISIONAL LIQUIDATORS AND THE DIRECTORS OF
FIRST NATURAL FOODS HOLDINGS LIMITED
(PROVISIONAL LIQUIDATORS APPOINTED)
(Incorporated in Bermuda with limited liability)**

We have performed the procedures agreed with you which are set out below on the profit forecast for the 12 months ending 31 December 2012 of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “Company”) and its subsidiaries (collectively the “Group”) (the “Forecast”). The Forecast has been prepared by the joint and several provisional liquidators of the Company (the “Provisional Liquidators”) and the Directors of the Company, with the assistance of the director of Group Will Holdings Limited (the “Investor”) in connection with Appendix V “Profit Forecast for the year ending 31 December 2012” to the circular (the “Circular”) of the Company dated 12 July 2012.

Our engagement was conducted in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The procedures were performed solely to assist you in connection with the Circular.

For the purpose of this report, the procedures performed are summarised as follows:

1. Check whether the Forecast, so far as the accounting policies and calculations are concerned, is properly compiled in accordance with the assumptions and bases set out the Circular;
2. Check whether the Forecast is made by the Provisional Liquidators and the Directors of the Company, with the assistance of the directors of the Investor, after due and careful enquiry;

APPENDIX VI LETTERS IN RELATION TO THE PROFIT FORECAST

3. Check whether the Forecast is made in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA; and
4. Check the arithmetical calculations of the Forecast.

Based on the information and documents made available to us, we report our findings below:

- a. The Forecast, so far as the accounting policies and calculations are concerned, is properly compiled in accordance with the assumptions and bases set out the Circular;
- b. The Forecast is made by the Provisional Liquidators and the Directors of the Company, with the assistance of the directors of the Investor, after due and careful enquiry;
- c. The Forecast is made in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA; and
- d. The arithmetical calculations of the Forecasts are correct.

Because the above procedures did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA (collectively referred to as Hong Kong Assurance Standards), we do not express any assurance on the Forecast.

Had we performed additional procedures or had we performed an assurance engagement in respect of the Forecast in accordance with Hong Kong Assurance Standards, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and is for your information only, and is not to be used for any other purpose or to be distributed to any other parties and we expressly disclaim any liability or duty to any other party in this respect. This report relates only to the items specified above and does not extend to the financial statements of the Group taken as a whole.

Yours faithfully
ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

(2) LETTER FROM THE FINANCIAL ADVISOR ON THE PROFIT FORECAST

The following is the text of a letter, prepared for inclusion in this circular, received by the Directors and the Provisional Liquidators from Asian Capital (Corporate Finance) Limited in connection with the forecast of the consolidated net profit attributable to the owners of the Company for the year ending 31 December 2012.



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

12 July 2012

The Directors and the Provisional Liquidators
First Natural Foods Holdings Limited
(Provisional Liquidators Appointed)
62/F, One Island East
18 Westlands Road
Island East
Hong Kong

Dear Sirs,

We refer to the consolidated profit forecast of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “**Company**”) and its subsidiaries (collectively as the “**Group**”) for the year ending 31 December 2012 (the “**Profit Forecast**”) as set out in the Appendix V “Profit Forecast for the year ending 31 December 2012” in the circular of the Company 12 July 2012 (the “**Circular**”).

The Profit Forecast, for which the directors and the provisional liquidators of the Company and the director of Group Will Holdings Limited are responsible, has been prepared based on the Group’s audited consolidated financial statements of the Company for the year ended 31 December 2011 and the forecast of the results of the Group for the year ending 31 December 2012.

We have discussed with you the bases and assumptions, as set forth in part (2) of Appendix V to the Circular, upon which the Profit Forecast has been made. We have also considered the letter dated 12 July 2012 addressed to you from ANDA CPA Limited regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the foregoing, in the absence of unforeseeable circumstances, the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by ANDA CPA Limited, we are of the opinion that the Profit Forecast, for which the directors and the provisional liquidators of the Company and the director of Group Will Holdings Limited are responsible, has been made after due care and consideration.

Yours faithfully,
For and on behalf of
Asian Capital (Corporate Finance) Limited
Larry Chan
Executive Director

1. RESPONSIBILITY STATEMENT

This circular, save for the information relating to the Investor, for which the Directors and the Provisional Liquidators collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors and the Provisional Liquidators, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

All the Directors and Provisional Liquidators jointly and severally accept full responsibility for the accuracy of information contained in this circular, save for the information relating to the Investor, and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

The director of the Investor, and the proposed Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised issued share capital of the Company as at the Latest Practicable Date and immediately following (i) the Capital Restructuring becoming effective; (ii) the issue of the Offer Shares; (iii) the issue of the Subscription Shares; and (iv) issue of Creditors Shares.

Before the Capital Restructuring

HK\$

Authorised share capital:

<u>2,000,000,000</u>	Shares	<u>100,000,000.00</u>
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Issued and fully paid or credited as fully paid:

<u>1,185,914,889</u>	Shares	<u>59,295,744.45</u>
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Upon the Capital Restructuring becoming effective*Authorised share capital:*

<u>800,000,000</u>	New Shares	<u>8,000,000.00</u>
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Issued and fully paid or credited as fully paid:

14,823,936	New Shares in issue immediately after the Capital Restructuring becoming effective	148,239.36
103,767,552	Offer Shares to be allotted and issued	1,037,675.52
266,830,850	Subscription Shares to be allotted and issued	2,668,308.50
<u>14,823,936</u>	Creditors Shares to be allotted and issued	<u>148,239.36</u>
<u>400,246,274</u>		<u>4,002,462.74</u>

When fully paid and allotted, the Offer Shares, the Subscription Shares and the Creditors Shares, which will be allotted and issued under a specific mandate to be sought from the Independent Shareholders at the SGM, will rank pari passu in all respects among themselves, including all rights to dividend, distributions, which may be declared, made or paid by the Company, voting and interest in capital, and with the New Shares in issue (after the Capital Restructuring becomes effective) as at the date of allotment and issue of the Offer Shares, the Subscription Shares and the Creditors Shares.

As at the Latest Practicable Date, no shares, options, warrants, conversion rights or any equity or debt securities of the Company was outstanding or was proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital, except for the Offer Shares, the Subscription Shares and the Creditors Shares.

Since 31 December 2011, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, no Shares have been allotted and issued by the Company. No part of the equity or debt securities of the Company is listed or dealt in, nor is listing or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, so far as is known to the Provisional Liquidators and the Directors, save as disclosed below and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company, none of the Directors had registered with the Company any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) recorded pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”); or (iv) pursuant to the requirement of the Takeovers Code.

(b) Interests of the substantial shareholders of the Group

As at the Latest Practicable Date, so far as is known to the Provisional Liquidators and the Directors or chief executives, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group:

Name of shareholder	Notes	Capacity	Number of ordinary shares held	Approximate percentage of issued share capital
Regal Splendid	(a)	Beneficial owner	416,665,000 Shares	35.13%
Dunross Investment Ltd.	(b)	Beneficial owner	83,370,000 Shares	7.03%
Dunross International AB	(c)	Interest of controlled corporation	83,370,000 Shares	7.03%
Dunross & Co AB	(c)	Interest of controlled corporation	83,370,000 Shares	7.03%
Crosby Active Opportunities Master Fund Limited	(d)	Beneficial owner	79,370,000 Shares	6.69%
Crosby Active Opportunities Feeder Fund Limited	(e)	Interest of controlled corporation	79,370,000 Shares	6.69%
Crosby Asset Management (Singapore) Limited	(f)	Interest of controlled corporation	79,370,000 Shares	6.69%
Crosby Asset Management Limited	(g)	Interest of controlled corporation	79,370,000 Shares	6.69%

Name of shareholder	Notes	Capacity	Number of ordinary shares held	Approximate percentage of issued share capital
Crosby Asset Management (Holdings) Limited	(h)	Interest of controlled corporation	79,370,000 Shares	6.69%
Crosby Asset Management Inc.	(i)	Interest of controlled corporation	79,370,000 Shares	6.69%
The SFP Asia Fund L.P.	(j)	Interest of controlled corporation	48,945,000 Shares	5.29%
The Investor	(k)	Beneficial owner	266,830,850 New Shares	66.67%
Mr. Huang Kunyan	(k)	Interest of controlled corporation	266,830,850 New Shares	66.67%

Notes:

- (a) Regal Splendid is a company incorporated in the BVI with limited liability, which was legally and beneficially owned as to 100% by Mr. Yeung. On 20 January 2010, Sun Hung Kai Structured Finance Limited obtained a charging order against Regal Splendid, which had pledged its holding of the aforesaid 416,665,000 Shares (the “**Charged Shares**”) and defaulted the loan owed to Sun Hung Kai Structured Finance Limited and Sun Hung Kai Investment Services Limited. Pursuant to the order of Hong Kong Court dated 16 March 2012, provisional liquidators have been appointed to take control of Regal Splendid and they are empowered to, among others, exercise Regal Splendid’s rights in the Charged Shares in the best interests of creditors of the Regal Splendid including but not limited to the voting rights attached to the Charged Shares for and on behalf of Regal Splendid in all the shareholder’s meeting of the Company. The winding up order was granted by the Hong Kong Court on 30 May 2012.
- (b) Dunross Investment Ltd. is a company incorporated in Cyprus which is wholly-owned by Dunross International AB.
- (c) Dunross International AB is a company incorporated in Sweden which is wholly-owned by Dunross & Co AB.
- (d) Crosby Active Opportunities Master Fund Limited is a company incorporated in the Cayman Islands which is wholly-owned by Crosby Active Opportunities Feeder Fund Limited.
- (e) Crosby Active Opportunities Feeder Fund Limited is a company incorporated in the Cayman Islands.
- (f) Crosby Asset Management (Singapore) Limited is a company incorporated in Singapore which is wholly-owned by Crosby Asset Management Limited.
- (g) Crosby Asset Management Limited is a company incorporated in the Cayman Islands which is wholly-owned by Crosby Asset Management (Holdings) Limited.

- (h) Crosby Asset Management (Holdings) Limited is a company incorporated in the Cayman Islands which is wholly-owned by Crosby Asset Management Inc.
- (i) Crosby Asset Management Inc. is a company incorporated in the Cayman Islands.
- (j) The SPF Asia Fund L.P. is a company incorporated in the Cayman Islands.
- (k) The Investor is wholly-owned by Mr. Huang. Accordingly, Mr. Huang is deemed to have an interest in the 266,830,850 New Shares of the Company to be subscribed by the Investor pursuant to the Restructuring Agreement.

Saved as disclosed above, as at the Latest Practicable Date, no person, other than the Directors, whose interests are set out above, had registered an interest or short position in the securities or underlying shares of the company that was required to be recorded pursuant to section 336 of the SFO.

4. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last trading day on which dealings took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Date; and (iii) the Latest Practicable Date.

Date	Closing price per Share (HK\$)
12 December 2008 (Last Trading Day)	0.295
30 June 2011	suspended
29 July 2011	suspended
31 August 2011	suspended
30 September 2011	suspended
31 October 2011	suspended
30 November 2011	suspended
31 December 2011	suspended
Latest Practicable Date	suspended

Trading in the Shares has been suspended since 9:30 a.m. on 15 December 2008 and that the last closing price before the Suspension was HK\$0.295 on 15 December 2008.

5. ADDITIONAL DISCLOSURE OF INTEREST

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2011, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group;
- (b) save for the Restructuring Agreement and the settlement with Mr. Yeung under the Scheme as set out in the paragraphs headed “Special Deal” in the “Letter from the Board and the Provisional Liquidators” in this circular, none of the Directors was given any benefit as compensation for loss of office or otherwise in connection with the Restructuring Agreement, the Share Subscription, Open Offer, issue of Creditors’ Shares, the Whitewash Waiver and/or the Special Deal;
- (c) save for the Restructuring Agreement and the settlement with Mr. Yeung under the Scheme as set out in the section headed “Special Deal” in the “Letter from the Board and the Provisional Liquidators”, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between any members of the Investor, its ultimate beneficial owner and parties acting in concert with any of them and any Director, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Restructuring Agreement, the Share Subscription, Open Offer, issue of Creditors’ Shares, the Whitewash Waiver and/or the Special Deal;
- (d) save for the Restructuring Agreement and the settlement with Mr. Yeung under the Scheme as set out in the section headed “Special Deal” in the “Letter from the Board and the Provisional Liquidators”, none of the Directors had entered into any agreement or arrangement with any other persons which is conditional on or dependence upon the Restructuring Agreement, the Share Subscription, Open Offer, issue of Creditors’ Shares, the Whitewash Waiver and/or the Special Deal;
- (e) none of the Directors (including the proposed Directors) was materially interested in any contract or arrangement subsisting at the date of the circular which was significant to the business of the Group; and
- (f) no material contract was entered into by the Investor, its beneficial owner and/or parties acting in concert with any of them in which any Director (including the proposed Director) has a material personal interest.

**6. ADDITIONAL DISCLOSURE OF SHAREHOLDINGS AND DEALINGS
PURSUANT TO THE TAKEOVERS CODE**

As at the Latest Practicable Date:

- (a) none of (i) the Investor; (ii) Mr. Huang; (iii) the director of the Investor; (iv) any parties acting in concert with the Investor or Mr. Huang owned, controlled, borrowed, lent or was interested in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (b) the Company and the Directors had no interest in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Investor;
- (c) save as disclosed in sub-section headed “Disclosure of interests” above, none of the Directors owned, controlled, borrowed, lent or was interested in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company, none of the Directors had any voting right in the Company. Therefore, none of the Directors is entitled to vote for or against any resolution in the SGM;
- (d) no relevant securities (as defined under Note 4 of Rule 22 of the Takeovers Code) in the Company was owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by Asian Capital or by the Independent Financial Adviser and none of the advisers to the Company (as specified in class (2) of the definition of “associate” under the Takeovers Code) owned or had any interests in any Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (e) there was no shareholding in the Company owned or controlled by any persons who, prior to the posting of this circular, have irrevocably committed themselves to vote for or against the resolutions relating to the Restructuring Agreement, the Share Subscription, Open Offer, issue of Creditors’ Shares, the Whitewash Waiver and the Special Deal;
- (f) none of the Directors had any beneficial shareholdings in the Shares which would entitle them to vote in respect of the Restructuring Agreement, the Share Subscription, Open Offer, issue of Creditors’ Shares, the Whitewash Waiver, the Special Deal and the transactions contemplated thereunder;
- (g) no person had any arrangement of the kind as described in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate and neither the Company nor such person who is an associate of the Company have entered into such an arrangement;
- (h) there was no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Investor or the Company and which might be material to the Restructuring Agreement, the Share Subscription, Open Offer, issue of Creditors’ Shares, the Whitewash Waiver or the Special Deal;

- (i) there was no agreement, arrangement or understanding which may result in the transfer, charge or pledge of any of the Subscription Shares or the Offer Shares to be subscribed by the Investor or parties acting in concert with it pursuant to the Restructuring Agreement to any other persons;
- (j) no shares, convertible securities, warrants, options or derivatives of the Company and the Investor were managed on a discretionary basis by fund managers connected with the Company;
- (k) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Investor or any persons acting in concert with it or the Investor's associates; and
- (l) no party whose shareholdings, being (i) the shareholdings of the Investor in the Company; (ii) the shareholdings in the Company which any persons acting in concert with the Investor own or control; or (iii) the shareholdings in the Company owned or controlled by any persons who, prior to the posting of this circular, have irrevocably committed themselves to accept or reject the Restructuring Agreement, the Share Subscription, the Open Offer, the issue of the Creditors Shares, the Whitewash Waiver, the Special Deal and the transactions contemplated thereunder were required by paragraph 4 of Schedule I to the Takeovers Code to be disclosed, including a party who had no shareholdings, had dealt for value in the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

During the Relevant Period:

- (a) none of the Company or the Directors had dealt for value in any shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in the Investor or the Company;
- (b) none of (i) the Investor, (ii) Mr. Huang, (iii) the director of the Investor, (iv) the beneficial owner of the Investor or (v) any persons acting in concert with the Investor and Mr. Huang had dealt for value in any shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company; and
- (c) none of the Company, the Directors, the Investor nor any of the parties acting in concert with it had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed services contract with any members of the Group (excluding contracts expiring or determinable by the employer within one year payment of compensations (other than statutory compensation)).

As at the Latest Practicable Date, none of the Directors has a service contract with the Company or any of its subsidiaries or associated companies, which:

- (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before 26 March 2012;
- (ii) are continuous contracts with a notice period of 12 months or more; or
- (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

8. LITIGATIONS

Pursuant to an order of the Hong Kong Court on 6 January 2009, Mr. Stephen Liu Yiu Keung and Mr. David Yen Ching Wai were appointed as the Provisional Liquidators, following a winding up petition and the application for the appointment of provisional liquidators.

Upon the appointment of the Provisional Liquidators, no action or proceeding shall be proceeded with or commenced against the Company except by leave of Hong Kong Court, and subject to such terms as the Hong Kong Court may impose. Claims and potential claims against the Company will be compromised under scheme of arrangement to be implemented by the Company, which was sanctioned by the Hong Kong Court and Bermuda Court.

On 2 May 2012, the Company filed a protective Writ of Summons to the Hong Kong Court against Mr. Yeung for, *inter alia*, a claim of not less than HK\$84,024,846 which relates to the missing funds of the Company and a claim for damages and/or compensation, for breach of trust and fiduciary and other duties owed by Mr. Yeung to the Company. After issue of the protective Writ of Summons, the Company would have 12 months' time from 2 May 2012 to serve the Writ of Summons.

As set out in the Company's annual reports for the years ended 31 December 2008, 2009, 2010 and 2011, the Provisional Liquidators have taken the PRC Legal Actions to seek to regain control of the PRC Subsidiaries and to preserve the assets of the Group. However, the PRC Legal Actions met with immense resistance from Mr. Yeung and Mr. Yang Le. Please refer to annual reports for the years ended 31 December 2008, 2009, 2010 and 2011 or the paragraphs headed "Management Discussion and Analysis of the Group for the Year Ended 31 December 2010" in Appendix I to this circular for further details of the PRC Legal Actions.

The Provisional Liquidators have identified that the Company has potential claims against Mr. Yeung in relation to certain inter-company loans due from the PRC Subsidiaries to the Company as at 31 December 2011 and the distributions of dividend by the Company to the Shareholders from 2002 to 2008. However, these potential claims require further investigations and assets search as well as are subject to legal advice. Pursuant to an order of the Hong Kong Court dated 16 May 2012, upon the Scheme becoming effective, the rights and obligations of all cause(s) of actions and claim(s), which the Company is involved as at Completion, will be transferred to special purpose vehicles of the Scheme

Administrators for a nominal consideration of HK\$1.00 for the benefit of the Creditors under the Scheme. Pursuant to the terms of the Scheme, HK\$8 million will be reserved from the scheme fund to finance the necessary investigations, legal advices and actions. After the Scheme becomes effective, the Scheme Administrators will consider carrying out legal actions against Mr. Yeung in relation to the aforesaid inter-company loans and the distributions of dividend.

Save as disclosed above, to the best knowledge of the Directors and the Provisional Liquidators, as at the Latest Practicable Date, neither the Company or its subsidiaries is currently involved or may become a party in any material litigation and not aware of any potential claims against the Company or its subsidiaries that would affect the Group's financial and operational positions.

9. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or proposed Directors and their respective associates were considered to have an interest in a business which competes or is likely to complete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his associates were appointed to represent the interests of the Company and/or the Group.

10. EXPERTS AND CONSENTS

The following is the qualification of the expert who has given opinions or advice, which is contained in this circular.

Name	Qualification
Asian Capital (Corporate Finance) Limited	a licensed corporation to carry on types 1 (dealing in Securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO
Goldin Financial Limited	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
ANDA CPA Limited	Certified Public Accountants

Each of Asian Capital, Goldin Financial Limited and ANDA CPA Limited has given and has not withdrawn its consent to the issue of this circular with the inclusion of its report or letter, as the case may be, and reference to its names in the form and context in which it respectively appears.

As at the Latest Practicable Date, each of Goldin Financial Limited and ANDA CPA Limited did not have any shareholding, directly or indirectly, in any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have

any interest, either direct or indirect, in any assets which had been since 31 December 2011 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group. Save for the entering into of the Underwriting Agreement as set out in section headed “Letter from the Board and the Provisional Liquidators” in this circular, Asian Capital did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did Asian Capital have any interest, either direct or indirect, in any assets which had been since 31 December 2011 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

11. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course) within the two years immediately preceding the date of the announcement dated 26 March 2012 and up to the Latest Practicable Date and are or may be material:

- (i) the Working Capital Facility Agreement and its supplemental deed dated 18 February 2011;
- (ii) the Debenture and its supplemental deed dated 18 February 2011;
- (iii) the agreement dated 22 April 2010 entered into between Pacific Prosper and Mega Legend Investment Limited in relation to the sale and purchase of the entire issued share capital of Orient Legend for an consideration of HK\$10 million;
- (iv) the supplemental exclusivity agreement dated 21 September 2010 entered into between the Investor, Mr. Huang, the Company and the Provisional Liquidators;
- (v) the Sincere Gold Agreement;
- (vi) the Restructuring Agreement (supplemented by two side letters dated 1 June 2012 and 9 July 2012 respectively); and
- (vii) the Underwriting Agreement.

12. CORPORATE INFORMATION

The Company

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

<i>Head office and principal place of business:</i>	62/F, One Island East 18 Westlands Road Island East Hong Kong
<i>Auditor:</i>	ANDA CPA Limited Unit D, 21/F., Max Share Centre, 373 King's Road, North Point, Hong Kong
<i>Legal advisor as to Hong Kong laws:</i>	P. C. Woo & Co. 12/F., Prince Building 10 Charter Road, Central Hong Kong
<i>Legal advisor as to Bermuda laws:</i>	Conyers Dill & Pearman 2901, One Exchange Square, 8 Connaught Place, Central, Hong Kong
<i>Branch share registrar in Hong Kong:</i>	Hong Kong Registrars Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
<i>Principal banks (before appointment of the Provisional Liquidators):</i>	CITIC Bank International Limited 232 Des Voeux Road Central, Hong Kong China Construction Bank (Asia) Corporation Limited 16/F., York House, The Landmark 15 Queen's Road Central, Hong Kong DBS Bank (China) Limited, Guangzhou Branch 17/F., Unit 1705-1708, and 18/F, Onelink Centre No. 230-232 Tianhe Road, Tianhe District Guangzhou, Guangdong Province, the PRC Xiamen International Bank Xin'gang Square, No. 10 Hu Bin Road North Xiamen, Fujian Province, the PRC

Taishin International Bank Co., Ltd.,
Hong Kong Branch
6/F., Sun Life Centre
The Gateway, 15 Canton Road
Tsimshatsui, Kowloon
Hong Kong

13. THE INVESTOR AND ITS ADVISORS

Address

The Investor

Group Will Holdings Limited
P. O. Box 957
Offshore Incorporation Centre
Road Town, Tortola
British Virgin Islands

Mr. Huang Kunyan

18E, South Tower, Huali Garden
No. 15 Tian Bei First Road
Shenzhen, the PRC

*Legal Advisor to the Investor as to Hong
Kong laws*

Robert C.K. Tsui & Co.
7th Floor CLI Building
313 Hennessy Road
Hong Kong

14. PARTICULARS OF DIRECTORS, MEMBERS OF SENIOR MANAGEMENT AND PROPOSED DIRECTORS**(a) Name and address of Directors and members of the senior management****Address***Executive Director:*

Mr. Lee Wa Lun, Warren Flat B, 12/F., Tower 2, Tregunter,
14 Tregunter Path,
Mid-Levels,
Hong Kong

Independent non-executive Directors:

Mr. Wong Chi Keung 43/F., Flat F, Tower One, The Orchards,
3 Greig Road, Quarry Bay,
Hong Kong

Mr. Leung King Yue, Alex Flat D, 39/F., Tower 2,
The Waterfront,
1 Austin Road West,
Tsimshatsui, Kowloon,
Hong Kong

Mr. Tang Chi Chung, Matthew Flat G, 7/F., Block 5, Willow Mansion,
Whampoa Gardens,
Hungohm, Kowloon,
Hong Kong

Senior management:

Mr. Mak Tat Ho, Louis Unit 1501, 15th Floor,
Nan Fung Commercial Centre,
19 Lam Lok Street,
Kowloon Bay, Kowloon,
Hong Kong

Mr. Wong King Luen, Colin 376 Jin Ou Lu, Jiang Hai District,
Jiangmen, Guangdong,
China

Mr. Shum Chin Tong Peter 14/F, Bangkok Bank Building,
490-492 Nathan Road,
Yaumatei, Kowloon,
Hong Kong

	Address
Mr. Mok Ying Sang	14/F, Bangkok Bank Building, 490-492 Nathan Road, Yaumatei, Kowloon, Hong Kong
Ms. Chan Wai Kon	Room D, 7/F., Mongkok Commercial Centre, 16-16B Argyle Street, Mongkok, Kowloon, Hong Kong
Ms. Fu Piu Ping Serina	Room D, 7/F., Mongkok Commercial Centre, 16-16B Argyle Street, Mongkok, Kowloon, Hong Kong
Mr. Zhang Qipi	376 Jin Ou Lu, Jiang Hai District, Jiangmen, Guangdong, China
Mr. Deng Qingen	376 Jin Ou Lu, Jiang Hai District, Jiangmen, Guangdong, China
Mr. Qiu Kun Ting	376 Jin Ou Lu, Jiang Hai District, Jiangmen, Guangdong, China

(b) Name and address of proposed Directors

Mr. Huang Kunyan	18E, South Tower, Huali Garden, No. 15 Tian Bei First Road, Shenzhen, the PRC
Mr. Shum Chin Tong Peter	14/F, Bangkok Bank Building, 490-492 Nathan Road, Yaumatei, Kowloon, Hong Kong
Mr. Dennis Wai Tak Yau	Room 2818, 28th Floor Shui On Centre 6-8 Harbour Road Wanchai Hong Kong

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. (Saturdays, Sundays and public holidays excepted) at the principal office of business in Hong Kong of the Company at 62/F, One Island East, 18 Westlands Road, Island East, Hong Kong from the Latest Practicable Date up to and including the date of the SGM (at 10:00 a.m., on Monday, 6 August 2012), in accordance with Note 1 to Rule 8 of the Takeovers Code and will be displayed on the websites of the SFC (www.sfc.hk) and on the Company's website (www.equitynet.com.hk/1076/):

- (i) memorandum of association and bye-laws of the Company;
- (ii) memorandum and articles of association of the Investor;
- (iii) the annual reports of the Company for the two financial years ended 31 December 2010 and 31 December 2011;
- (iv) the report from ANDA CPA Limited on unaudited pro forma financial information of the Group dated 12 July 2012, the text of which is appended to this circular as Appendix IV;
- (v) the letters in relation to the Profit Forecast for the year ending 31 December 2012 issued by ANDA CPA Limited and Asian Capital both dated 12 July 2012, the texts of which are appended as Appendix VI to this circular;
- (vi) the “Letter from the Board and the Provisional Liquidators” as set out in this circular;
- (vii) the “Letter from Independent Financial Adviser” as set out in this circular;
- (viii) the written consents referred to in the paragraph headed “Experts and Consents” in this Appendix; and
- (ix) all material contracts referred to in the paragraph headed “Material Contracts” in this Appendix.

16. GENERAL

If there is any inconsistency or ambiguity between the English version and the Chinese version of this circular, the English version shall prevail.

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FIRST NATURAL FOODS HOLDINGS LIMITED

(Provisional Liquidators Appointed)

第一天然食品有限公司*

(已委任臨時清盤人)

(Incorporated in Bermuda with limited liability)

(stock code: 1076)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of First Natural Foods Holdings Limited (Provisional Liquidators Appointed) (the “**Company**”) will be held at 10:00 a.m. on Monday, 6 August 2012 at Room 201 of the Hong Kong Council of Social Services, Duke of Windsor Social Service Building, No. 15 Hennessy Road, Wanchai, Hong Kong (or any adjournment thereof) for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions of the Company:

SPECIAL RESOLUTION

CAPITAL RESTRUCTURING

1. “**THAT** conditional upon, inter alia, the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting its approval to the listing of, and permission to deal in, the New Shares (as defined in paragraph (c) of this resolution), and the compliance with the relevant procedures and requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and section 46(2) of the Companies Act 1981 of Bermuda to effect the Capital Reduction (as defined in paragraph (a) of this resolution) and Share Premium Reduction (as defined in paragraph (f) of this resolution):
 - (a) the par value of every issued share of the Company be reduced from HK\$0.05 to HK\$0.000125 by the reduction of HK\$0.049875 on each issued share of par value of HK\$0.05 each (the “**Capital Reduction**”) and the credit balance arising from the Capital Reduction be transferred to the contributed surplus account of the Company and the directors of the Company (“**Directors**”) be and are hereby authorized to apply such amount in the contributed surplus account in any manner as permitted by the Companies Act 1981 of Bermuda to set off part of the accumulated losses of the Company as at 31 December 2011;

* For identification purposes only

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- (b) immediately upon the Capital Reduction becoming effective, all the existing shares in the un-issued share capital of the Company be cancelled in its entirety, as a result of which, the authorised and issued share capital of the Company will comprise 1,185,914,889 shares of HK\$0.000125 (the “**Capital Cancellation**”);
- (c) immediately upon the Capital Reduction becoming effective, every eighty (80) issued shares of HK\$0.000125 each be consolidated into one (1) new share of HK\$0.01 each (the “**New Share(s)**”) (the “**Share Consolidation**”);
- (d) any fractions of New Shares arising on the Share Consolidation pursuant to paragraph (c) of this resolution shall not be allocated to the holders of the existing shares otherwise entitled thereto but such fractions shall be aggregated and if possible sold for the benefit of the Company or be dealt with in such other manner as the Company or its joint and several provisional liquidators (the “**Provisional Liquidators**”) may agree with the Stock Exchange from time to time and the total number of New Shares in the issued share capital of the Company following the Share Consolidation be rounded down to a whole number;
- (e) immediately upon the Share Consolidation becoming effective, the authorised share capital of the Company be increased to HK\$8,000,000 by the creation of 785,176,064 New Shares (the “**Increase of Authorised Share Capital**”);
- (f) the entire amount standing to the credit of the share premium account of the Company as at 31 December 2011, be reduced (the “**Share Premium Reduction**”, together with the Capital Reduction, the Capital Cancellation, the Share Consolidation and the Increase of Authorised Share Capital, the “**Capital Restructuring**”) and the credit balance arising from the Share Premium Reduction be transferred to the contributed surplus account of the Company and the Directors be and are hereby authorized to apply such amount in the contributed surplus account in any manner as permitted by the Companies Act 1981 of Bermuda to set off in part against the accumulated losses of the Company as at 31 December 2011;
- (g) all the New Shares in the capital of the Company after completion of the Capital Restructuring pursuant to this resolution shall rank pari passu in all respects with each other and have the same rights and privileges and be subject to the restrictions contained in the memorandum of association and bye-laws of the Company;
- (h) the Provisional Liquidators and the Directors be and are hereby authorised to take all necessary steps and do all such other things and acts and execute all such other documents (including the affixation of the common seal of the Company where execution under seal is required) which they may in their absolute discretion consider necessary, desirable, or expedient for the purpose of giving effect to or implementing any of the foregoing.”

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ORDINARY RESOLUTIONS

THE RESTRUCTURING PROPOSAL

2. “**THAT**

- (a) the restructuring agreement dated 5 January 2012 (the “**Restructuring Agreement**”, a copy of which has been produced to this meeting and marked “A” and initialed by the chairman of this meeting for identification purpose) entered into among the Company, the Provisional Liquidators (as defined in resolution no. 1 of the notice convening this meeting), Group Will Holdings Limited as investor (the “**Investor**”) and Mr. Huang Kunyan as guarantor in relation to the restructuring of the Company and the transactions contemplated thereunder (the material terms of which are detailed in the circular of the Company dated 12 July 2012), and the execution and performance thereof by the Company be and are hereby approved, ratified and confirmed;
- (b) the allotment and issuance of the 266,830,850 New Shares (the “**Subscription Shares**”) by the Company to the Investor at a subscription price of HK\$0.5622 per Subscription Share, for a total consideration of approximately HK\$150,000,000, pursuant to the Restructuring Agreement be and is hereby approved;
- (c) the allotment and issue of 14,823,936 New Shares (the “**Creditors Shares**”) by the Company to the scheme administrators or their successors (the “**Scheme Administrators**”) appointed (pursuant to the terms of the scheme of arrangement under Section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and Section 99 of the Companies Act 1981 of Bermuda to be made between the Company and its ordinary creditors (the “**Scheme**”)) or their nominee(s) or a special purpose vehicle controlled by the Scheme Administrators to partially settle claims against and liabilities of the Company with its creditors under the Scheme on and subject to the terms and conditions of the Scheme be and are hereby approved;
- (d) the Provisional Liquidators (as defined in resolution no. 1 of the notice convening this meeting) and the Directors (as defined in resolution no. 1 of the notice convening this meeting) be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the terms of the Restructuring Agreement and the transactions contemplated thereunder, including but not limiting to the allotment and issue of the Subscription Shares and the Creditors Shares, as they may in their discretion consider to be desirable and in the interests of the Company.”

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OPEN OFFER

3. **“THAT** conditional upon (i) Capital Restructuring (as defined in resolution no. 1 of the notice convening this meeting) becoming effective; (ii) the passing of resolution no. 2 set out in the notice convening this meeting; (iii) the Listing Committee of the Stock Exchange (as defined in resolution no. 1 of the notice convening this meeting) granting its approval to the listing of, and permission to deal in, the New Shares (as defined in resolution no. 1 of the notice convening this meeting), the Subscription Shares (as defined in resolution no. 2 of the notice convening this meeting), the Creditors Shares (as defined in resolution no. 2 of the notice convening this meeting) and the Offer Shares (as defined in paragraph (a) of this resolution); and (iv) the fulfillment of all the conditions precedent set out in the underwriting agreement dated 9 July 2012 (the **“Underwriting Agreement”**, a copy of which has been produced to this meeting and marked “B” and initialed by the chairman of this meeting for identification purpose) entered into among the Company and Asian Capital (Corporate Finance) Limited as the underwriter (the **“Underwriter”**):
- (a) the issue by way of an open offer (the **“Open Offer”**) of 103,767,552 New Shares (the **“Offer Shares”**) at the offer price of HK\$0.5622 per Offer Share on the basis of seven Offer Shares for every one New Share to the qualifying shareholders of the Company (the **“Qualifying Shareholders”**) whose names appear on the register of members of the Company as at 4:00 p.m. on 9 August 2012 or such other date as the Company and Underwriter may agree to be the record date for such Open Offer (the **“Record Date”**), other than those shareholders whose addresses as shown on the register of members of the Company on the Record Date are outside Hong Kong and located in a jurisdiction the laws of which may prohibit the making of the Open Offer to such shareholders or otherwise require the Company to comply with additional requirements which are, in the opinion of the Directors (as defined in resolution no. 1 of the notice convening this meeting) or the Provisional Liquidators (as defined in resolution no. 1 of the notice convening this meeting), unduly onerous or burdensome (the **“Excluded Shareholders”**), the non-extension of the Open Offer to the Excluded Shareholders and the taking up by the Underwriter of the Excluded Shareholder’s Offer Shares, and the transactions contemplated thereunder be and are hereby approved;
 - (b) the entering into the Underwriting Agreement by the Company and the performance of the transactions contemplated thereunder by the Company be and are hereby approved, and the Provisional Liquidators and the Directors be and are hereby authorised to make such exclusions or other arrangement as they may, in their absolute discretion, consider necessary, desirable or expedient, in relation to the Excluded Shareholders, the treatment of fractional entitlements, the absence of any arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer and the underwriting of the Offer Shares by the Underwriter;

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- (c) any of the Provisional Liquidators and the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to and in connection with the Open Offer; and
- (d) the Provisional Liquidators and the Directors be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of the Open Offer and the transactions contemplated thereunder, as they may in their discretion consider to be desirable and in the interests of the Company.”

GROUP REORGANISATION

- 4. “**THAT**, subject to the passing of resolution no. 2. set out in the notice convening this meeting:
 - (a) the proposed reorganisation of the structure of the Company and its subsidiaries by transferring the Excluded Companies (as defined in paragraph (c) of this resolution) by the Company to a nominee of the Scheme Administrator (as defined in resolution no. 2 of the notice convening this meeting) and the transferring of all cause(s) of actions and claim(s) of every kind and nature which is or are transferrable by the Company (the “**Transferred Claims**”) to a nominee of the Scheme Administrators for a nominal consideration of HK\$1.00 (the “**Group Reorganisation**”) be and are hereby approved;
 - (b) the Provisional Liquidators (as defined in resolution no. 1 of the notice convening this meeting) and the Directors (as defined in resolution no. 1 of the notice convening this meeting) be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver all such documents (including the affixation of the common seal of the Company where execution under seal is required) and take all such steps which they may in their discretion consider necessary, desirable or expedient for the implementation of and giving effect to the terms of the Group Reorganisation; and
 - (c) for the purpose of this resolution:

“Excluded Companies” means 第一中國科技有限公司* (First China Technology Limited); 第一中國科技(香港)有限公司 (First China Technology (Hong Kong) Limited); 盛隆國際貿易有限公司 (Smart Dragon International Trading Limited); 福清隆裕食品開發有限公司 (Fuqing Longyu Food Development Company Limited*); 嘉環商業(上海)有限公司 (Jia Jing Commercial (Shanghai) Company Limited*); and 寧波市頂味食品開發有限公司 (Ningbo Dingwei Food Development Company Limited*.”

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WHITEWASH WAIVER

5. **“THAT**, the waiver (the **“Whitewash Waiver”**) granted or to be granted by the Executive Director (the **“Executive Director”**) of the Corporate Finance Division of the Securities and Futures Commission (or any delegate of such Executive Director) pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of the Investor (as defined in resolution no. 2 of the notice convening this meeting) and parties acting in concert with it, to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by the Investor and its concert parties upon completion of the Restructuring Agreement (as defined in resolution no. 2 of the notice convening this meeting), and any conditions that may be imposed thereon, be and are hereby approved and the Provisional Liquidators (as defined in resolution no. 1 of the notice convening this meeting) and the Directors (as defined in resolution no. 1 of the notice convening this meeting) be and are hereby authorised generally to take all necessary steps and to do all other things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of and giving effect to any matters relating to, or incidental to, the Whitewash Waiver.”

SPECIAL DEAL

6. **“THAT** subject to the consent of the Executive Directors (as defined in resolution no. 5 of the notice convening this meeting), or any delegate of the Executive Director pursuant to Rule 25 of the Hong Kong Code on Takeovers and Mergers and the satisfaction of any condition attached to such consent, the proposed settlement of the indebtedness of approximately HK\$68,000,000 owed to Mr. Yeung Chung Lung under the Scheme be and is hereby approved; and the Provisional Liquidators (as defined in resolution no. 1 of the notice convening this meeting) and the Directors (as defined in resolution no. 1 of the notice convening this meeting) be and are hereby authorised, for and on behalf of the Company, to do all such acts and things and to sign, seal and execute and deliver such documents (including the affixation of the common seal of the Company where execution under seal is required) in connection with such settlement and take all such steps which they may in their discretion consider necessary, desirable or expedient to give effect to it.”

GENERAL AUTHORISATION

7. **“THAT** in connection with the actions contemplated by the foregoing resolutions, each of the Provisional Liquidators (as defined in resolution no. 1 of the notice convening this meeting), the Directors (as defined in resolution no. 1 of the notice convening this meeting), officers, and any attorney or authorised signatories be, and such other persons as are authorised by any of them be, and each hereby is, authorised, in the name and on behalf of the Company, to do such further acts and things as any Provisional Liquidators, Directors, or officers or such duly authorised other persons shall deem necessary or appropriate in connection with, or to carry out the actions contemplated by, the foregoing resolutions, including to do and perform (or cause to be

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done and performed), in the name and on behalf of the Company, all such acts and to make, execute, deliver, issue or file (or cause to be made, executed, delivered or filed) with any person including any governmental authority or agency, all such agreements, documents, instruments, certificates, consents and waivers, and all amendments to any such agreements, documents, instruments or certificates, and to pay, or cause to be paid, all such payments, as any of them may deem necessary or advisable to carry out the intent of the foregoing resolutions, the authority for the taking of any such action and the execution and delivery of such of the foregoing to be conclusively evidenced thereby.”

RATIFICATION OF PRIOR ACTIONS

8. “**THAT** any and all actions of the Company, or of any Provisional Liquidators (as defined in resolution no. 1 of the notice convening this meeting), Directors (as defined in resolution no. 1 of the notice convening this meeting), or officers or any attorney or authorised signatories, taken in connection with the actions contemplated by the foregoing resolutions prior to the execution hereof be and hereby are ratified, confirmed, approved and adopted in all respects as fully as if such action(s) had been presented to for approval, and approved by, all the Directors prior to such action being taken”.

ELECTION OF DIRECTORS

9. “**THAT** subject to the completion of the Restructuring Agreement (as defined in resolution no. 2 of the notice convening this meeting) (the “**Completion**”), each of the following persons be elected as a director of the Company effective from the date of Completion, subject to the provisions of the bye-laws of the Company:
- (a) Mr. Huang Kunyan;
 - (b) Mr. Shum Chin Tong Peter; and
 - (c) Mr. Dennis Wai Tak Yau.
10. “**THAT** the board of directors of the Company be and is hereby authorised to fix the remuneration of the directors of the Company”.

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the special general meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

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3. Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the special general meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
4. As at the date of this notice, the board of directors of the Company comprises one executive director, being Mr. Lee Wa Lun, Warren and three independent non-executive directors, being Mr. Wong Chi Keung, Mr. Leung King Yue, Alex and Mr. Tang Chi Chung, Matthew.

For and on behalf of
First Natural Foods Holdings Limited
(Provisional Liquidators Appointed)

Stephen Liu Yiu Keung
David Yen Ching Wai

Joint and Several Provisional Liquidators

By Order of the Board
First Natural Foods Holdings Limited
(Provisional Liquidators Appointed)

Wong Chi Keung
Chairman

Hong Kong, 12 July 2012