



China Agrotech Holdings Limited

浩倫農業科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

Listing by Introduction



SPONSOR



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**INTRODUCTION OF
THE ENTIRE ISSUED SHARE CAPITAL
OF**



China Agrotech Holdings Limited
浩倫農業科技集團有限公司*
(incorporated in the Cayman Islands with limited liability)

**ON
THE STOCK EXCHANGE OF HONG KONG LIMITED**

Stock Code: 1073

Sponsor



This document is published in connection with the listing by way of introduction on the Stock Exchange of the entire issued share capital of China Agrotech Holdings Limited and contains particulars given in compliance with the Securities (Stock Exchange Listing) Rules 1989 (as amended) of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange for the purpose of giving information with regard to China Agrotech Holdings Limited.

This document does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of China Agrotech Holdings Limited, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to the public. No new shares will be issued in connection with, or pursuant to, the publication of this document.

Your attention is drawn to the section headed “Risk factors” in this document.

Subject to the granting of the listing of, and permission to deal in, the shares of HK\$0.10 each in the capital of China Agrotech Holdings Limited (“Shares”) on the Main Board of the Stock Exchange and the compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in the Central Clearing and Settlement System (“CCASS”) with effect from the commencement date of dealings in the Shares on the Main Board of the Stock Exchange or such other date as determined by Hongkong Clearing. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

* For identification only

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SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.

BUSINESS

The Group is principally engaged in the production and sale of DCPTA-based regulatory-type plant growth regulators (or PGRs) in the PRC and trading of pesticides, fertilisers and other agricultural resources products sourced from other manufacturers in the PRC through the agricultural resources supermarket stores set up by the Group.

The Group produces six specific purpose DCPTA-based regulatory-type PGRs, namely, PGRs for vegetables, fruits, rice, tobacco, flowers and edible fungi. In the year ended 30th June, 2001, sales of the PGRs for vegetables, fruits, rice, tobacco, flowers and edible fungi accounted for approximately 18.07%, 34.90%, 29.78%, 14.95%, 1.18% and 1.12%, respectively, of the Group's turnover derived from the sales of PGRs. All of the Group's PGR products are sold under the "Chaoda" trade mark pursuant to licensing agreements between the Group and Chaoda Group.

The Group commenced commercial production of PGRs in 1997 in Xiamen, Fujian Province, the PRC. The Group's present production facility is located in Huian County, Fujian Province, the PRC. It commenced production in May 2000 and is currently equipped with eight production lines which are owned and operated by the Group. The Group's production facility has a maximum annual production capacity of 2,240 tonnes of PGRs.

The Group set up 44 agricultural resources supermarket stores in Fujian Province since March 2001. These agricultural resources supermarket stores are run by participating agricultural resources wholesale dealers. The Group sells to such dealers PGRs, pesticides, fertilisers and other agricultural resources products produced by the Group as well as other PRC agricultural resources manufacturers. The sales of PGRs produced by the Group and the sales of other agricultural resources products produced by other PRC manufacturers were approximately 14.65% and 85.35%, respectively, of the aggregate turnover of the Group's trading business of agricultural resources products for the year ended 30th June, 2001. For the year ended 30th June, 2001, the sales of PGRs produced by the Group through the agricultural resources supermarket stores amounted to approximately 2.14% of the total turnover of the Group, while the sales of other agricultural resources products of other manufacturers amounted to approximately 12.46% of the total turnover of the Group.

The Group's turnover was solely contributed by the production and sales of PGRs prior to March 2001; since then, the Group commenced trading of pesticides, fertilisers and other agricultural resources products. For the year ended 30th June, 2001, the production and sales of PGRs (including the sales of PGRs produced by the Group through agricultural resources supermarket stores) and the trading of pesticides, fertilisers and other agricultural resources products accounted for approximately 87.54% and 12.46% of the Group's turnover.

SUMMARY

The Directors believe that the success of the Group is primarily attributable to the following:

The only producer of regulatory-type PGRs in the PRC

While there are more than 100 producers of hormone-type PGRs in the PRC, the Group is currently the only producer of regulatory-type PGRs in the PRC. The more technologically advanced nature of its regulatory-type PGRs compared to hormone-type PGRs, in the Directors' view, provides the Group with its key competitive advantage.

High profit margin

With its low cost structure, the Group had a net profit margin before taxation of approximately 44%, 39% and 32%, respectively, in each of the three years ended 30th June, 2001. Accordingly, the Group has full discretion in determining product prices in the light of market conditions and hence has a significant degree of flexibility in determining its market strategy.

Continuing research and development

The Group places emphasis on research and development to improve product quality and to develop a more diversified range of products. For the three years ended 30th June, 2001, the Group's expenditures on research and development activities amounted to approximately HK\$1,108,000, HK\$7,780,000 and HK\$11,285,000, respectively, representing approximately 5.3%, 9.0% and 6.0% of the Group's respective turnover. The Group has a group of research and development staff responsible for research, new product development as well as inspection and testing during the production process. The Group also maintains continuous cooperation with science and academic institutes in the PRC for the research and development of new products. For the cooperation between the Group and the institutes, please refer to "Business — Research and Development" in this document.

Commitment to quality management system

The Group places great emphasis on quality control over its production process. In February 2001, the Company was accredited the ISO 9001 certificate for the Group's production business in Huian County, Fujian Province, the PRC. Such accreditation demonstrates that the Group's production activities have attained international standards on its quality management systems.

Well recognised brand name

All of the Group's PGR products are sold under the "Chaoda" trade mark and brand name which are owned by Chaoda Group. Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and its "Chaoda" trade mark and brand name are well-established in the PRC agricultural industry. The Directors consider that the trade mark licensing arrangements with Chaoda Group have been contributing to the success of the Group and will continue to be beneficial to the Group's sales and marketing activities.

SUMMARY

Strong management team

The Group has an experienced management team, key members of which have extensive experience and technical expertise in the PRC agricultural industry. Most of the key management members have been involved with the Group's commercial production of PGRs since the early stages of its establishment in 1997.

AUDITED TRADING RECORD

The following is a summary of the audited consolidated results of the Group for each of the three years ended 30th June, 2001 ("Trading Record Period") extracted from the accountants' report, the text of which is set out in Appendix I to this document. The audited consolidated results of the Group were prepared as if the Group's current existing structure had been in place throughout the Trading Record Period.

For further details on how the audited trading record of the Group was prepared, please refer to "Financial Information — Audited Trading Record" in this document.

	<i>Note</i>	Years ended 30th June,		
		1999	2000	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(1)	21,065	86,732	187,161
Cost of sales		<u>(5,961)</u>	<u>(18,958)</u>	<u>(60,250)</u>
Gross profit		15,104	67,774	126,911
Selling and distribution expenses		(3,259)	(18,545)	(41,437)
General and administrative expenses		<u>(2,581)</u>	<u>(17,128)</u>	<u>(22,176)</u>
Profit from operations		9,264	32,101	63,298
Interest income		2	2,768	5,108
Finance costs		<u>—</u>	<u>(1,074)</u>	<u>(7,901)</u>
Profit before taxation		9,266	33,795	60,505
Taxation		<u>(286)</u>	<u>(1,640)</u>	<u>—</u>
Profit after taxation but before minority interests		8,980	32,155	60,505
Minority interests		<u>(3,458)</u>	<u>(2,147)</u>	<u>94</u>
Profit attributable to shareholders		<u>5,522</u>	<u>30,008</u>	<u>60,599</u>
Dividend		<u>4,000</u>	<u>—</u>	<u>—</u>
Earnings per Share — Basic (cents)	(2)	<u>3.2</u>	<u>13.6</u>	<u>24.2</u>

SUMMARY

Notes:

1. Turnover represents the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.
2. The calculations of the basic earnings per Share for each of the three years ended 30th June, 2001 are based on the consolidated profit attributable to shareholders of approximately HK\$5,522,000, HK\$30,008,000 and HK\$60,599,000 during the years and the respective weighted average of approximately 175,000,000, 219,877,000 and 250,000,000 ordinary shares in issue during the years.

No diluted earnings per Share is presented as the then outstanding unlisted warrants were anti-dilutive.

DIRECTORS' REMUNERATION

The remuneration payable by the Company to each of the executive Directors for the year ending 30th June, 2002 is as follows:

Name	Annual Salary
Mr. Wu	HK\$360,000
Mr. Tung Fai	HK\$360,000
Mr. Yang Zhuoya	HK\$360,000

Each of Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya has entered into a service contract with the Company, in the case of Mr. Wu, for a term of 10 years, and in the case of Mr. Tung Fai and Mr. Yang Zhuoya, for a term of three years, all commencing from 15th November, 1999, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to a basic salary (subject to an annual increment at a rate to be determined by a majority of the Directors). In addition, each of the executive Directors is also entitled to a management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors who are entitled to such bonuses for any financial year of the Company may not exceed 6% of the audited consolidated net profit of the Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of the Company. Under the Articles of Association and the service contracts between the Directors and the Company, an executive Director may not vote on any resolution of the Directors regarding the amount of the annual increment and management bonus payable to him/her.

During the year ended 30th June, 2001, the aggregate remuneration paid and benefits in kind granted to the Directors who acted in the capacity as a director of the Group were approximately HK\$1,750,000.

Under the present arrangements, the aggregate of the remuneration paid or payable to, and benefits in kind received or receivable by, the Directors for the year ending 30th June, 2002 are estimated to be approximately HK\$1,800,000 (excluding management bonuses, if any, payable to the Directors).

SUMMARY

FUTURE PLANS

The Group plans to:

- complete the development of two new PGRs, one for corn and the other for oil seeds, and to establish two more new production lines for the production of these new products, with commercial production expecting to commence in mid-2002;
- build upon the success of its specific purpose PGRs to further develop new specific purpose PGRs for a more diversified range of agricultural produce to maintain its position as the leading producer of regulatory-type PGRs in the PRC;
- carry out research and development in conjunction with research institutes for organic agricultural resources products other than PGRs and explore the commercial application of such products, e.g. biological pesticide; and
- further develop the Group into a vertically integrated provider of agricultural resources products by establishing agricultural resources supermarket stores in selected regions in the PRC.

DIVIDEND POLICY

For the year ended 30th June, 1999, a total amount of dividend of HK\$4,000,000 was declared and paid by Loyal Faith to its then shareholders. The dividend payment was financed by the internal financial resources of the Group. Save as disclosed above, no dividend was declared by the Company for each of the three years ended 30th June, 2001.

The Directors expect that, in future, interim and final dividend will be paid in or around April of each year and December following the end of each financial year, respectively. The declaration of, payment and amount of dividends will be subject to the discretion of the Directors after taking into consideration the Group's earnings, financial condition, cash requirements and availability, and other relevant factors.

KEY FINANCIAL INFORMATION

Earnings per Share for the year ended 30th June, 2001 (<i>Note 1</i>)	24.2 cents
Adjusted net tangible asset value per Share (<i>Note 2</i>)	HK\$0.724
Board lot size	2,000 Shares

Notes:

1. The calculation of the basic earnings per Share for the year ended 30th June, 2001 is based on the consolidated profit attributable to shareholders of approximately HK\$60,599,000 during the year and the weighted average of approximately 250,000,000 ordinary shares in issue during the year.
2. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in "Financial Information — Adjusted Net Tangible Assets" in this document and is based on the 270,434,782 Shares in issue upon the Introduction, but taking no account of any Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them to allot and issue Shares, or Shares which may be repurchased by the Company.

RISK FACTORS

The Directors consider that there are certain risks involved in the Group's business which are set out in "Risk Factors" of this document. These risks can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; and (iii) risks relating to the PRC which are summarised as follows:

Risks relating to the Group

- Dependence on a major customer
- Dependence on major suppliers
- Protection of confidential technical knowhow
- Importance of continuing research and development and the success thereof
- Use of "Chaoda" trade mark
- Dependence on key personnel
- Product liability risk
- Environmental issue
- Availability of additional resources for future growth
- Ability to implement strategies for future growth
- Tax concessions
- Trading of pesticides, fertilisers and other agricultural resources products
- Non-inclusion of a profit forecast for the year ending 30th June, 2002
- Ability to sustain a high profit margin
- Failure to obtain the building ownership certificate

Risks relating to the industry

- Product classification
- Natural disasters and extreme weather conditions
- Competition

Risks relating to the PRC

- Political and economic considerations
- Legal considerations
- Currency conversion and exchange rate
- China's entry to the World Trade Organisation
- Worldwide economic slowdown
- Statistics

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the meanings set out below. See also “Glossary of Technical Terms”.

“Articles of Association”	the articles of association of the Company, a summary of which is set out in Appendix III
“Board”	the board of directors of the Company
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Chaoda Group”	Fujian Chaoda Group, Fujian Chaoda and/or Supreme Bonus
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	China Agrotech Holdings Limited, a limited company incorporated in the Cayman Islands on 9th September, 1999
“Director(s)”	director(s) of the Company
“Dollars” or “HK\$” and “cents”	Hong Kong dollars and Hong Kong cents, respectively, the lawful currency of Hong Kong
“Fujian Chaoda”	福建超大農業產品銷售有限公司, a limited company established under the laws of the PRC
“Fujian Chaoda Group”	福建超大集團有限公司, a limited company established under the laws of the PRC
“Fujian Jinxi”	福建錦溪集團有限公司, a limited company established under the laws of the PRC
“Fujian Topmart”	Fujian Chaoda Topmart Plant Growth Co., Ltd., a Sino-foreign equity joint venture enterprise established under the laws of PRC and owned as to 70% by Topmart and as to 30% by Fuzhou Topmart
“Fuzhou Topmart”	Fuzhou Topmart Plant Growth Co., Ltd., a wholly foreign-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM made by the Stock Exchange

DEFINITIONS

“General Mandate”	the general mandate granted to the Directors in the annual general meeting of the Company held on 7th November, 2001 to issue Shares as further described in Appendix IV to this document
“Group”	the Company together with its subsidiaries, or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the Company’s subsidiaries at that time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“ICEA”	ICEA Capital Limited, a registered dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Introduction”	the listing of the Shares on the Stock Exchange by way of an introduction pursuant to the Listing Rules
“Latest Practicable Date”	10th December, 2001, being the latest practicable date for the inclusion of certain information in this document prior to its publication
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Loyal Faith”	Loyal Faith International Industrial Limited, a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM and which stock market continues to be operated by the Stock Exchange in parallel with GEM
“Ministry of Agriculture”	the Ministry of Agriculture of the PRC
“MOFTEC”	the Ministry of Foreign Trade and Economic Co-operation of the PRC
“Mr. Wu”	Mr. Wu Shaoning, the Chairman and the controlling shareholder (as defined in the Listing Rules) of the Company, holding approximately 51.77% of the total issued Shares as at the Latest Practicable Date
“PBOC”	the People’s Bank of China

DEFINITIONS

“PBOC Exchange Rate”	the exchange rate for foreign exchange transactions involving Renminbi published daily by the PBOC on the basis of the exchange rate prevailing in the inter-bank foreign exchange market on the preceding day
“Pinghe Topmart”	平和縣超大浩倫錦溪生產資料有限公司, a limited company established under the laws of the PRC and owned as to 66% by Fujian Topmart, as to 24% by Fuzhou Topmart and as to 10% by Fujian Jinxi
“PRC”, “State” or “China”	the People’s Republic of China, and except where the context requires, references in this document to the PRC or China do not include Hong Kong, Macau or Taiwan
“Proposed Share Option Scheme”	the share option scheme proposed to be adopted at the extraordinary general meeting of the Company to be held on 31st December, 2001, the principal terms of which are summarised in “Proposed Share Option Scheme” in Appendix IV to this document
“Prospectus”	the prospectus of the Company dated 16th November, 1999 in respect of its initial public offering and placing of Shares
“Repurchase Mandate”	the share repurchase mandate granted to the Directors in the annual general meeting of the Company held on 7th November, 2001 to repurchase Shares as further described in Appendix IV to this document
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	State Administration for Foreign Exchange of the PRC
“SAIC”	State Administration of Industry and Commerce of the PRC
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Shanxi Topmart”	山西超大浩倫農業科技有限公司, a limited company established under the laws of the PRC and owned as to 95.5% by Fujian Topmart and as to 4.5% by Fujian Chaoda Group
“Share Offer”	the Company’s initial public offering and placing of Shares in November 1999
“Share Option Scheme”	the share option scheme adopted by the Company on 11th November, 1999, the principal terms of which are summarised in “Share Option Scheme” in Appendix IV to this document

DEFINITIONS

“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Sponsor”	ICEA
“sq.m.”	square metre or square metres
“State Bureau of Petroleum and Chemical Industry”	the State Bureau of Petroleum and Chemical Industry of the PRC, which was established from the merger of the Ministry of Petroleum Industry of the PRC and the Ministry of Chemical Industry of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Bonus”	Supreme Bonus Limited, a limited company incorporated in Hong Kong
“Topmart”	Topmart Limited, a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Warrants”	the warrants issued by the Company on 7th November, 2000 entitling the holder(s) thereof to subscribe for new Shares at the initial subscription price of HK\$1.38 per Share (subject to adjustment), up to the aggregate amount of HK\$47,000,000 at any time during the period from 7th November, 2000 to 7th November, 2001 (both dates inclusive) as constituted by the instrument dated 7th November, 2000 and executed by the Company by way of deed poll, pursuant to which the Company issued a total of 20,434,782 Shares on 1st November, 2001
“Xiamen Genben”	Xiamen Genben Fine Chemical Industry Co., Ltd., a wholly foreign-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company
“Xiamen Kai Yuan ”	廈門市開元精細化工公司, a former PRC joint venture party of Xiamen Genben
“Xiamen Yien Yang”	廈門延洋工貿有限公司, a former PRC joint venture party of Xiamen Genben
“Yut Yat”	Yut Yat Company Limited, a limited company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company

GLOSSARY OF TECHNICAL TERMS

“catalyst”	substance that speeds up a chemical reaction
“DCPTA”	a synthetically produced polyamine which is the only category of polyamines that has, so far, been commercially developed for agricultural use
“distillation”	the process of turning a liquid to vapour by heating, then collecting the condensation when cooled
“emulsifying agent”	chemical substance used to distribute evenly particles of oil or fat in a liquid
“enzyme”	organic chemical substance that is found in living cells that accelerates biochemical changes within cells
“esterification”	the reaction between organic acids and alcohols
“fertiliser”	natural or artificial substance that contains the nutrients required by plants
“filtration”	the process of removing impurities from a liquid
“gene”	unit in a chromosome which controls heredity
“nucleic acid”	referring to either deoxyribonucleic acid (DNA) or ribonucleic acid (RNA) in cells, being the basic constituent of genes
“nutritious growth”	growth with respect to plant organs, such as root, stem and leaf
“organic”	being, found in, or formed by living things
“PGR(s)”	plant growth regulator(s)
“polyamine(s)”	also known as tertiary amine bioregulators, being a newly discovered biochemical which, other than plant hormones, can control specific physiological and biochemical functions of plants by their influence on gene and enzyme interactions
“polymeride”	chemical substance used to combine small simple molecules into large complex molecules
“reactor”	apparatus in which chemical reactions take place and which controls the reaction process

GLOSSARY OF TECHNICAL TERMS

“regulatory-type PGR”	also known as plant biochemical regulator, a biochemical that is associated with various genetic and physiological processes within plants
“reproductive growth”	growth with respect to plant organs, such as flower and fruit
“solvent”	liquid or solution that can dissolve another substance
“synthesizing”	the process of combining separate parts or elements to form a complex whole
“synthetic”	being artificial or made by synthesizing

RISK FACTORS

Potential investors should consider carefully all of the information set out in this document and, in particular, should evaluate the following risks in connection with an investment in the Company. Investment in the PRC carries a high degree of risk. In addition to normal investment risks, the Group's business in the PRC will be subject to certain risks that are unique to that country.

RISKS RELATING TO THE GROUP

Dependence on a major customer

Sales to Chaoda Group accounted for approximately 29.1%, 28.5% and 21.9%, respectively, of the Group's turnover for each of the three years ended 30th June, 2001. Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and the Group's single largest customer. The Group entered into a sales contract with Chaoda Group pursuant to which Chaoda Group agreed to purchase not less than a minimum aggregate quantity of 300 tonnes of any kind of the Group's PGR products (including the six existing types of PGR products as well as other types of PGR products that the Group may produce) in the year ending 30th June, 2002 and in each of the four financial years thereafter. If the minimum quantity is not purchased by Chaoda Group in any period, Chaoda Group will have to pay to the Group a cash amount to compensate for the shortfall between the minimum quantity and the actual purchased quantity. Each of the Group and Chaoda Group is entitled to terminate the sales contract before the end of its term on certain grounds, including where the other party commits a material breach of any of the terms of the sales contract and such breach is not remedied within a specified time or such other party goes into liquidation or ceases to carry on business. Until sales to Chaoda Group account for a lesser proportion of the Group's turnover, any failure by Chaoda Group to meet its obligations under the sales contract as to the placing of purchase orders or payment or any material adverse change in the business or financial position of Chaoda Group may have a material adverse effect on the Group's business, results of operation and financial condition. Please also refer to "Risk Factors — Risks Relating to the Group — Use of "Chaoda" trade mark" for information relating to the trade mark licensing arrangements between the Group and Chaoda Group.

Dependence on major suppliers

The five largest suppliers of the Group in aggregate accounted for approximately 74.8%, 62.0% and 64.7% respectively, and the single largest supplier accounted for approximately 26.5%, 23.6% and 33.2% respectively, of the Group's total purchases in each of the three years ended 30th June, 2001. These major suppliers mainly provide various chemicals as raw materials for the production of PGRs, packaging materials for PGRs and fertilisers for the Group's sale to the participating dealers of the agricultural resources supermarket stores set up by the Group. Until the purchases from such suppliers account for a lesser proportion of the Group's total purchases, if any of them should cease to deal with the Group, the Group's business, results of operation and financial condition could be adversely affected.

Protection of confidential technical knowhow

The Group's regulatory-type PGRs are produced from a combination of various types of organic acids, alcohols, catalysts and organic solvents. The quantities required of the materials, the duration for which and the temperature at which the materials are to be processed all form part of the confidential technical knowhow that is key to the Group's production process and is known only to Mr. Wu, the Chairman of the Company, and certain other key technical and management personnel.

The most important part of the Group's production technology relates to the production of DCPTA, the base chemical from which specific purpose PGRs for different agricultural produce are produced. While the chemical compound structure of DCPTA is generally known, the process by which DCPTA may be produced has, to the knowledge of the Directors, remained to be confidential information. Mr. Wu submitted an application for a patent registration in respect of the technical knowhow relating to DCPTA production in July 1999 and the application for patent registration is currently in progress. Pursuant to a patent assignment dated 13th September, 1999, Mr. Wu assigned all his rights and interests in such technical knowhow and the benefits of such application to the Company. The patent assignment dated 13th September, 1999 provided that the application right of the patent registration should be transferred by Mr. Wu to the Company within ten days after the signing of such assignment. However, the transfer of the application right of the patent registration involved complicated and time-consuming procedures. In addition, the Group has been fully making use of the technical knowhow during the course of its business and it was originally intended that the patent registration would be transferred to the Group upon the completion of the entire registration process (instead of transferring the application right in respect thereof). Accordingly, no arrangement was made to transfer the application right of the patent registration from Mr. Wu to the Group until November 2001.

To formalise the patent registration, at the direction of the Company and on the basis of the patent assignment dated 13th September, 1999 (which remains valid), Mr. Wu signed a patent assignment dated 30th November, 2001 with Fujian Topmart and appointed a patent agent recognised by the PRC Patents Registry in respect of patent registration matters in Fujian Province, the PRC, to make an application for the transfer of the application right in respect of the patent registration to Fujian Topmart in November 2001. The patent agent in Fujian Province submitted the application for such transfer to the PRC Patents Registry on 4th December, 2001 based on the patent assignment dated 30th November, 2001. The Directors understand that any similar transfer will normally require six months to complete all the necessary procedures in the PRC and expect the transfer of the application right to the Group will be completed before July 2002.

Any breach of confidentiality in respect of the Group's production technical knowhow may have a material adverse effect on its business. Further, there is no assurance that the patent registration application and the transfer of the application right in respect of the patent registration from Mr. Wu to the Group will be approved by the PRC Patents Registry. While the Group's application for patent registration in the PRC will, when completed, provide additional protection under the PRC Patent Law (1984, revised in 1992 and 2000), there remains a significant degree of risk of patent infringement and significant uncertainty as to effective enforcement against infringers in the PRC. If the Group does not have the protection, this will adversely affect the business of the Group.

RISK FACTORS

Other parties may successfully develop their own DCPTA production technology including by conducting detailed analysis of the Group's PGR products and may be able to commence production of DCPTA-based PGRs by purchasing DCPTA in its processed form as a raw material. If this happens, it may adversely affect the Group's business, results of operation and financial condition.

Importance of continuing research and development and the success thereof

The technical knowhow that is key to the production of the Group's PGR products has been developed by Mr. Wu over a period of more than four years from early 1992. The Group is currently the only producer of regulatory-type PGR in the PRC and its products are more technologically advanced and hence, are an improved product compared to hormone-type PGRs. Over time, regulatory-type PGRs may be superseded by more technologically advanced products. If the Group encounters any difficulty in the research and development of any of its new products, it may adversely affect the business of the Group.

Use of "Chaoda" trade mark

The Group produces and sells all of its PGR products under the "Chaoda" trade mark which is owned by Chaoda Group and registered in the PRC. The Group and Chaoda Group have entered into licensing agreements pursuant to which Chaoda Group granted the Group the exclusive right to use the "Chaoda" trade mark in connection with the production and sale of PGR products in the PRC and Hong Kong. For details of the licensing arrangements with Chaoda Group, please refer to "Business — Intellectual Property Rights" in this document. Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and its "Chaoda" trade mark and brand name are well-established in the PRC agricultural industry. Given the Group's reliance on the use of the "Chaoda" trade mark and brand name, the Group's business may be materially adversely affected if it loses the use of the "Chaoda" trade mark and brand name or if the goodwill associated with the "Chaoda" trade mark or brand name is adversely affected whether as a result of infringement, misuse or otherwise.

Dependence on key personnel

The Group's success is, to a significant extent, built upon the technical knowhow possessed by Mr. Wu, Mr. Yang Zhuoya and certain other key technical and management personnel. Each of them has entered into a service contract with the Group for a fixed term of ten years expiring between 2007 and 2009 (subject to the Group's right of termination in certain circumstances). Each of them has also undertaken to the Group not to divulge confidential information or to engage in competing business with the Group during the term of his service contract and in the case of Mr. Wu, for ten years, and in the case of the others, for three years after its expiry or termination. The loss of Mr. Wu or any of the other key technical and management or the failure by any of them to observe and perform his obligations under the service contract may have a material adverse effect on the Group.

Product liability risk

The Group does not currently maintain any product liability insurance. Given that it does not have any product liability insurance, any significant product liability claim could have a material adverse effect on the Group.

RISK FACTORS

Environmental issue

The Group's operation is subject to environmental laws and regulations of the PRC. The Group's production process generates a certain level of noise. In addition, during the process of cleansing the production lines, acidic waste water will be generated which has to be neutralised before discharge. There is no assurance that changes, if any, in the relevant environmental laws and regulations may not result in the Group having to incur substantial capital expenditure to replace, upgrade or supplement its existing facilities. If it happens, this may have a material adverse effect on the Group's business, results of operations and financial condition.

Availability of additional resources for future growth

The Group is currently experiencing a period of significant growth, in terms of its sales volume, the scale of its production facilities, its research and development activities, and the coverage of its sales and distribution network. The Directors believe that the Group's continued expansion is essential for it to remain competitive and to capitalise on the growth potential of its businesses. Such expansion may place a significant strain on the Group's management, operational and financial resources.

As the scale of its operations grows, the Group will have to continually improve its management, operational and financial systems, procedures and controls, and to expand its workforce. The expansion of its business operations may also involve the Group cooperating or developing new relationships with third parties such as customers, suppliers and research and development institutions. There can be no assurance that the Group's existing or future management, operational and financial systems, procedures and controls will be adequate to support its future operations, that the Group will be able to recruit, retain and motivate its personnel or that the Group will be able to establish or develop business relationships beneficial to its future operations. Failure of the Group to manage growth effectively could have a material adverse effect on its business, results of operations and financial condition.

Ability to implement strategies for future growth

The success of the Group in the future will substantially depend on, among other things, its ability to implement its strategies. The successful implementation of such strategies may be influenced by a number of factors which may or may not be within the control of the Group. These factors include increasing competition, changes in production methods and changes in government policies. The Group may also need financing from time to time to pursue its future strategies. There can be no assurance that any such additional financing will be available. If adequate funds are not available or are not available on acceptable terms, the Group may not be able to pursue its strategies and this could adversely affect the Group's future growth.

Tax concessions

According to PRC tax laws and regulations, a foreign investment enterprise engaging in manufacturing business which has an operating term of over 10 years will normally enjoy full exemption from the PRC enterprise income tax in the first two years in which such foreign investment enterprise records assessable profits and a 50% tax exemption in the three years thereafter. All foreign

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investment enterprises established in the economic development zone of Fujian Province of the PRC are subject to an enterprise income tax at the rate of either 15% or 24%, depending on where such enterprises are located within the economic development zone of Fujian Province, or other applicable rates. Otherwise, business enterprises in the PRC are in general subject to an enterprise income tax at a rate of 33%.

Three of the Group's principal subsidiaries in the PRC, namely Xiamen Genben, Fuzhou Topmart and Fujian Topmart, are foreign investment enterprises and have been entitled to the tax concessions mentioned above during the three years ended 30th June, 2001.

Xiamen Genben, a wholly-owned subsidiary of the Group established and operated in Xiamen, Fujian Province, the PRC, a special economic region of the PRC, is subject to the PRC enterprise income tax at a rate of 15%. However, it is exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. Xiamen Genben was exempted from the PRC enterprise income tax up to 31st December, 1998 and it is subject to the PRC enterprise income tax at a rate of 7.5% from 1st January, 1999 to 31st December, 2001.

Fuzhou Topmart and Fujian Topmart, wholly-owned subsidiaries of the Group established and operated in Fuzhou, Fujian Province, the PRC, are subject to the PRC enterprise income tax at a rate of 24%. However, they are exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. Fuzhou Topmart was exempted from the PRC enterprise income tax up to 31st December, 2000 and it is subject to the PRC enterprise income tax at a rate of 12% from 1st January, 2001 to 31st December, 2003. Fujian Topmart was exempted from the PRC enterprise income tax up to 31st December, 2002 and it is subject to the PRC enterprise income tax at a rate of 12% from 1st January, 2003 to 31st December, 2005.

In addition, the Group's PGRs are classified as pesticides which are exempted from value-added tax under PRC tax regulations. If such tax concessions or value-added tax exemption ceases to be available to the Group or be subject to amendment in any respect that reduces the benefit of the Group, there will be a material adverse effect on the Group's results of operations and financial condition.

Trading of pesticides, fertilisers and other agricultural resources products

The Group commenced trading of pesticides, fertilisers and other agricultural resources products since March 2001 through agricultural resources supermarket stores set up by the Group. The management team of the Group has relatively limited experience in this business. For the year ended 30th June, 2001, the Group made a loss of approximately HK\$1,557,000 from the operation of this business. Further, the relationship between the Group and the participating agricultural resources wholesale dealers is governed by an agreement for a limited term of one year. There is no assurance that the Group will be able to renew such agreements or to obtain the participation of other agricultural resources wholesale dealers or that the co-operation with the participating agricultural resources wholesale dealers will be smooth. If the Group is not successful in this business, it may have a material adverse effect on the Group's results of operations.

RISK FACTORS

Non-inclusion of a profit forecast for the year ending 30th June, 2002

The Group's financial year end is at 30th June, and this document is dated 14th December, 2001. To prepare a profit forecast of the Group for the year ending 30th June, 2002 for incorporation into this document, it would require an estimation of the Group's operating results for a period of approximately seven months. As the Group commenced the trading business of agricultural resources products only in March 2001 and such business is still in its initial stage of development with limited track record, which cannot provide a concrete basis for the Directors to arrive at an accurate forecast, the Directors are of the opinion that it is difficult to assess and project the Group's turnover for such a long period of time with the same level of accuracy and comfort as required for a profit forecast to be disclosed in this document. Consequently, no profit forecast of the Group for the year ending 30th June, 2002 is included in this document. Investors should be aware that there is no assurance that the Group will increase or maintain its historical revenue or profitability and that the historical results of the Group should not, therefore, be used as an indication of its future performance.

Ability to sustain a high profit margin

In each of the three years ended 30th June, 2001, the Group achieved a gross profit margin of approximately 72%, 78% and 68%, respectively, as well as a net profit margin of approximately 26%, 35% and 32%, respectively. There is no assurance that the Group will be able to sustain its future profit margin at a level as high as that was achieved historically.

Failure to obtain the building ownership certificate

The Group's production plant is located in Huian County, Fujian Province, the PRC, occupying a total area of approximately 60,000 sq.m. The land use rights of the land upon which the Group's production plant is situated was granted to the Group for a term of 50 years terminating in 2050. However, the Group made an application for the relevant building ownership certificate in March 2001, but has not obtained it yet. The Directors expect that the fee payable for the certificate upon completion of the application is approximately RMB300,000. Despite the lack of the relevant building ownership certificate, the production plant has been valued at approximately HK\$7,800,000 and is included in the summary of values and valuation certificates set out in Appendix II to this document, and has been stated at historical cost less accumulated depreciation of approximately HK\$7,759,000 in the accountants' report set out in Appendix I to this document.

The Directors cannot predict whether and how the Group's interest would be adversely affect if formal building ownership certificate in respect of the production plant cannot be obtained.

RISKS RELATING TO THE INDUSTRY

Product classification

The production of chemical products in the PRC is regulated by the State Bureau of Petroleum and Chemical Industry. Each type of chemical products is subject to different product classification by the State Bureau of Petroleum and Chemical Industry and according to such classification, different testing procedures and regulatory requirements. The sale of fertilisers, pesticides, PGRs and certain

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other ancillary products for the agricultural industry in the PRC is regulated by the Ministry of Agriculture. Each such product is subject to different product classification by the Ministry of Agriculture and according to such classification, different regulatory requirements. As PGR is an agricultural chemical, its production and sale in the PRC are currently regulated by both the State Bureau of Petroleum and Chemical Industry and the Ministry of Agriculture. Agricultural chemicals may fall under the product classification of either fertilisers or pesticides and depending on such classification, are subject to different testing procedures and regulatory requirements, and are entitled to different preferential policies such as exemption from value-added tax and reduction of enterprise income tax if they satisfy specific requirements within their classification.

The DCPTA-based regulatory-type PGR of the Group has been registered with the Ministry of Agriculture and the State Bureau of Petroleum and Chemical Industry under the classification of pesticide and is entitled to an exemption from PRC value-added tax. In obtaining such registration, the chemical composition of the PGR had to be tested and verified by the State Bureau of Petroleum and Chemical Industry. In addition, the PGR had to be subject to various testings as well as field experiments which involved the application of the PGR in the cultivation of various agricultural produce at three locations over a two-year period. Such testings and experiments were carried out by independent agricultural technology bodies or universities on behalf of the Ministry of Agriculture, the primary purpose of which was to verify the effect and safety in use of the PGR. The registration covers all of the specific purpose regulatory-type PGRs produced by the Group so long as they are DCPTA-based and no separate registration, testing or field experiment is required for each specific purpose PGR.

The Directors understand that the PRC government may or may not consider establishing a new classification for PGRs for the purposes of the registration requirements described above. If such a new classification is introduced, it is uncertain, at this stage, as to how it would affect the Group and its products and whether there would be any change in the registration process or preferential treatment (in terms of exemption from PRC value-added tax) currently available to the Group.

Natural disasters and extreme weather conditions

As the Group's business is closely related to the agricultural industry, the occurrence of droughts, floods, earthquakes or other natural disasters on a significant scale or extreme weather conditions for any prolonged period in the PRC that results in any material adverse effect on the agricultural industry in the PRC will also have a material adverse effect on the Group's business.

Competition

The Group competes with other producers of hormone-type PGRs and distributors of agricultural resources products in the PRC and expects increased competition in the PGR market and the agricultural resources products market in the PRC after the PRC's joining the World Trade Organisation. As the PRC has become a contracting member of the World Trade Organisation and the PRC government has, on various occasions in the past two to three years, reduced import tariff on a wide range of products, this will result in foreign-made PGRs being imported into the PRC at lower tariff rates. Any increased competition in the PGR market and the agricultural resources products markets in the PRC may have a material adverse effect on the business of the Group.

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RISKS RELATING TO THE PRC

Political and economic considerations

The business of the Group and, in particular, its plans for future business development are dependent on, among other things, the prevailing economic and political conditions in the PRC. The PRC economy has traditionally been a planned economy. While the PRC government has pursued economic reforms since its adoption of the open-door policy in 1978, a large part of the PRC economy is still operated under five-year plans and annual state plans. Through these plans and other economic measures, such as control on foreign exchange, taxation and restrictions on foreign participation in the domestic market of various industries, the PRC government exerts considerable direct and indirect influence on the economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental, and are expected to be refined and improved. Other political, economic and social factors can also lead to further readjustment of the reform measures. This refining and readjustment process may not necessarily have a positive effect on the operations of the Group and its future business development. The operating results of the Group may be adversely affected by changes in the PRC's economic and social conditions and by changes in policies of the PRC government such as changes in laws and regulations (or the official interpretation thereof), measures which may be introduced to control inflation, changes in the rate or method of taxation and imposition of additional restrictions on currency conversion.

Legal considerations

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little precedential value. In 1979, the PRC began to promulgate a comprehensive system of laws and has since introduced many laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new laws, changes of existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty.

Currency conversion and exchange rate

The Group relies on its revenues denominated in Renminbi to pay dividends or to satisfy other foreign exchange requirements. The People's Bank of China ("PBOC") and the State Administration of Foreign Exchange ("SAFE") (under the authority of PBOC) regulate the conversion of Renminbi into foreign currencies. Under the current unified floating exchange rate system, PBOC publishes a daily exchange rate for Renminbi (the "PBOC Exchange Rate") based on the previous day's dealings in the inter-bank foreign exchange market. Financial institutions authorised to deal in foreign currency may enter into foreign exchange transactions at exchange rates within an authorised range above or below the PBOC Exchange Rate according to the market conditions.

Since 1996, a number of rules, regulations and notices regarding foreign exchange control (the "Regulations") have been issued by the PRC government which are designed to provide for greater convertibility of the Renminbi. Under the Regulations, any foreign investment enterprises ("FIEs") must establish a "current account" and a "capital account" with a bank authorised to deal in foreign

RISK FACTORS

exchange. Currently, FIEs are able to exchange Renminbi into foreign exchange at designated foreign exchange banks for settlement of “current account transactions” (as defined in the Regulations), which include payment of dividends on the basis of the board resolutions authorising the distribution of profits or dividends of the company concerned, without the approval of the SAFE. Conversion of Renminbi into foreign currencies for “capital account transactions” (as defined in the Regulations), which include receipt and payment of foreign exchange for loans, capital contributions and purchase of fixed assets, continues to be subject to limitations and require the approval of the SAFE.

The Group’s subsidiaries in the PRC are all FIEs (except for Pinghe Topmart and Shanxi Topmart) to which the Regulations are applicable. However, there can be no assurance that the Group will be able to obtain sufficient foreign exchange to pay dividends or satisfy other foreign exchange requirements in the future.

The value of Renminbi is subject to changes in the PRC government’s policies and to international economic and political developments. During the few years prior to 1994, Renminbi experienced a devaluation against most major currencies. Since 1994, the official exchange rate for the conversion of Renminbi into US dollars has been stable. However, there can be no assurance that Renminbi will not become volatile against other currencies or that the Renminbi will not be devalued. As the Group may not be able to hedge effectively against Renminbi devaluations, there can be no assurance that future movements in the exchange rate of Renminbi and other currencies will not have an adverse effect on the Group’s results of operations and financial condition.

China’s entry to the World Trade Organisation

China has become a contracting member of the World Trade Organisation which uniformly regulates trade and tariffs among its contracting members. The PRC government has, on various occasions in the past two to three years, reduced import tariffs on a wide range of products. This process towards the general opening up of the PRC market is expected to continue. This will result in PGRs, fertilisers, pesticides and other products being imported into China at lower tariff rates, and will consequently lead to an increase in the competition faced by the Group in the PGR market and in the agricultural resources products market in the PRC. In such circumstance, the business of the Group may be materially adversely affected.

Worldwide economic slowdown

The attack on the World Trade Centre in New York on 11th September, 2001 has brought material disruption to the capital markets in the United States as well as in other parts of the world. There is uncertainty as to whether such event would trigger a material downturn in economic conditions in the United States and the other parts of the world. Any significant slowdown in the worldwide economy could have a material adverse effect on the economic conditions in the PRC. If this happens, there is no assurance that the Group’s profits and financial condition will not be materially adversely affected.

Statistics

Facts and statistics in this document relating to the PRC economy (including the PGR and agricultural resources industry) are derived from various government and institute research publications. Such facts and statistics have not been independently verified by the Group and, therefore, the Group makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document includes particulars given in compliance with the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong (as amended) and the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this document misleading.

This document is published solely in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to offer, of the Shares or other securities of the Company.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any option which may be granted under the Proposed Share Option Scheme. Except that prior to the Introduction, the Shares are listed on the GEM of the Stock Exchange, no part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought by the Company as at the date of this document.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board of the Stock Exchange and the compliance with the stock admission requirements of Hongkong Clearing by the Company, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares on the Main Board of the Stock Exchange or such other date as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after the date of transactions. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

STAMP DUTY

Dealings in Shares registered in the Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. None of the Company, the Sponsor, any of their respective directors, agents or advisers or any other party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, holders of the Shares resulting from the holding of or dealing in Shares.

EXCHANGE RATE CONVERSION

In this document, unless otherwise specifically provided, amounts in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1.00 = RMB1.06, being the PBOC middle exchange rate on the Latest Practicable Date. Such conversions are for the purpose of convenience and for indication and reference purposes only and should not be construed as any representation that the Renminbi amounts and the Hong Kong dollar amounts have been, could have been or could be converted into Hong Kong dollars and Renminbi, as the case may be, at that or any other rate or at all.

UNDERTAKINGS

Mr. Wu, being the controlling shareholder of the Company, holding approximately 51.77% of the total issued Shares as at the Latest Practicable Date, has undertaken to the Company that he shall not (a) in the period of six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, and shall procure that the registered holder shall not dispose of, any of those Shares in respect of which he is the beneficial owner; and (b) in the period of six months commencing from the date on which the period referred to in paragraph (a) above expires, dispose of or permit the registered holder to dispose of, any of the Shares referred in paragraph (a) above if, immediately following such disposal Mr. Wu would cease to be a controlling shareholder of the Company (as defined in the Listing Rules).

Mr. Wu has also undertaken to the Company and the Stock Exchange that, within the period of twelve months from the date on which dealings in the Shares commence on the Stock Exchange, he will:

- (i) immediately inform the Company of any pledge/charge of securities of the Company beneficially owned by him together with the number of securities so pledged/charged when he makes such pledges/charges; and
- (ii) immediately inform the Company when he receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged securities will be disposed of.

The Company has agreed that it will inform the Stock Exchange as soon as it has been informed of any matters relating to the pledge/charge mentioned above by Mr. Wu, and disclose such matters by way of a press notice in newspapers as soon as possible in accordance with the requirements of the Listing Rules.

CONDITION OF THE INTRODUCTION

The Introduction is subject to the fulfilment of the condition that the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any option granted under the Proposed Share Option Scheme.

The Shares are currently listed on GEM. Immediately prior to the Introduction, the listing of the Shares on GEM will be withdrawn in accordance with the GEM Listing Rules. In this connection, an extraordinary general meeting of the Company will be held on 31st December, 2001 to approve the withdrawal of the listing of the Shares on GEM. The Directors expect that dealings in the Shares on the Main Board of the Stock Exchange will commence on or about 14th January, 2002.

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

Name	Address	Nationality
<i>Executive Directors</i>		
WU Shaoning (Chairman)	Flat A, 2nd Floor Orchid Garden No. 7 Tat Chee Avenue Yau Yat Chuen Kowloon Hong Kong	Chinese
YANG Zhuoya (Managing Director)	24 Hauda Yuen Dongsha Street Guangzhou Guangdong Province PRC	Chinese
TUNG Fai	Flat 2, 23rd Floor Block B Villa Rocha No.10 Broadwood Road Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
HE Zhongpei	No. 504, Unit 2, Block 822 3 Hanyuen Xi Lu Yuen Ming Yuen Haidian District Beijing PRC	Chinese
LAM Ming Yung	Flat 4B, Block 5 Bay View Garden Tsuen Wan New Territories Hong Kong	Chinese

Members of the audit committee

HE Zhongpei

LAM Ming Yung

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

Sponsor

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Hong Kong

Legal Advisers to the Company

As to Hong Kong law

Freshfields Bruckhaus Deringer
11th Floor
Two Exchange Square
Central
Hong Kong

As to PRC law

GFE Law Office
15th Floor, Chengyue Plaza
448 Dongfeng Zhong Road
Guangzhou
the PRC

As to Cayman Islands law

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
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Grand Cayman
Cayman Islands
British West Indies

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

Independent Reporting Accountants

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Certified Public Accountants
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

Property Valuers

Sallmanns (Far East) Limited
15th Floor, Trinity House
165-171 Wanchai Road
Wanchai
Hong Kong

CORPORATE INFORMATION

Registered Office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman Cayman Islands British West Indies
Head Office and Principal Place of Business in Hong Kong	Room 2706, 27th Floor China Resources Building 26 Harbour Road Wanchai Hong Kong
Company Secretary	Mr. Tong Hing Wah <i>Associate Member of Hong Kong Society of Accountants</i> <i>Fellow Member of The Association of Chartered Certified Accountants</i>
Authorised Representatives	Mr. Tung Fai Mr. Tong Hing Wah
Principal Share Registrar and Transfer Office	Bank of Bermuda (Cayman) Limited P.O. Box 513 G.T. 3rd Floor British American Tower Dr. Roy's Drive George Town Grand Cayman Cayman Islands British West Indies
Hong Kong Branch Share Registrar and Transfer Office	Hong Kong Registrars Limited 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Principal Bankers

Fleet National Bank, Hong Kong Branch
33rd Floor
Jardine House
1 Connaught Place
Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Central
Hong Kong

CITIC Industrial Bank
99 Hudong Road
Fuzhou
Fujian
The PRC

Information contained in this section has been extracted from official or unofficial publications, or has been obtained from discussions with relevant governmental or industrial bodies or organisations. The Company has not undertaken any independent verification of such information and accepts no responsibility for the accuracy of such information.

1. Background

With a population of approximately 1.27 billion at the end of 2000, the PRC is one of the most densely populated country in the world. The agricultural industry plays a very important role in the PRC economy. In 2000, the gross domestic product of the primary industry in the PRC amounted to approximately RMB1,421 billion, representing about 15.9% of the total gross domestic product of the PRC. The agricultural industry in the PRC experienced an impressive growth in terms of gross output value at a compound annual growth rate of 12.5% from 1980 to 2000.

Since the PRC first embarked upon its economic reforms in the late 1970's, increased industrialisation and urbanisation have been key factors restricting the growth in the total area of farmland in the PRC. The total area of farmland in the PRC (in terms of sown area) only experienced a slight increase from 146.4 million hectares in 1980 to 156.3 million hectares in 2000 while population increased from approximately 0.99 billion to approximately 1.27 billion in the same period. This represents a reduction in the area of farmland per capita (in terms of sown area) by 17.4% from 0.149 hectare to 0.123 hectare from 1980 to 2000. In the light of the reduction in the area of farmland per capita, the development of the PRC agricultural industry has focused, and the Directors expect that in the next few years it will continue to focus, on improving the production yield and value of the agricultural output.

2. Plant growth regulators

Plant growth relies on external factors such as sunlight, water, air, nutrients and temperature. It is also affected by the activities and interaction of organic active substances that exist within the plant such as hormones, enzymes, nucleic acid and protein that constitute the micro-structure of the plant cells. The activities and interaction of such organic active substances have a direct effect on the process of division and elongation of the plant cells during the plant growth process.

PGR, in liquid or powder form, serves to influence or regulate the activities and interaction of such organic active substances during plant growth. By doing so, they improve both the quality and quantity of the plant (the quality in terms of the taste, colour, appearance and nutrition of the plant or its fruits and the quantity in terms of the size of the plant or the weight or quantity of its fruits). PGRs are applied in addition to (and not in place of) fertilisers. Compared with fertilisers, however, PGRs only have to be applied in minimal quantities. Hence, PGRs are particularly suitable for use in agricultural environments such as China where there is a pressing need to maximise crop yield and to improve crop quality with limited (or decreasing) farmland land supply and other natural resources (such as water) and in the most cost effective manner.

Currently, two types of PGRs have been developed and are in use in the agricultural industry in the world, namely, hormone-type PGRs and regulatory-type PGRs. These two types of PGRs function differently and produce different effects.

Hormone-type PGRs serve to provide additional growth hormones to, or to stimulate hormone activities and/or hormone production within, a plant, thereby increasing its quantity in terms of weight or size or improving its quality. Hormone-type PGRs can be divided into six major categories, namely, auxin, gibberellins, cytokinins, abscisic acid, ethylene and BR. Auxin was the first of them being developed as a hormone-type PGR in 1934, while BR was the most recently developed in 1979. Hormone-type PGRs were widely used in the 1950s to 1970s. Auxin, for instance, was widely used in the cultivation of tomatoes in the 1950s, while ethylene was widely used in rubber production in the 1970s.

The main limitation of hormone-type PGRs is that each type of hormone-type PGRs only achieves one singular effect on a plant. Hence, the application of a specific type of hormone-type PGRs on a plant may increase the size of its fruits but is not capable of bringing about other improvements to the plant (as to, for instance, taste, colour or appearance of its fruits) at the same time. In some cases, the application of hormone-type PGRs may affect plant quality or have other side effects.

Regulatory-type PGRs serve to influence or regulate the activities and interaction of enzymes, nuclei acid, protein and other substances that constitute the micro-structure of plant cells, thereby bringing about an overall improvement effect on the plant, including increase in quantity, improvement to quality, as well as improvement to immunity to disease and tolerance to drought and adverse temperatures. Regulatory-type PGRs have been developed largely to overcome the limitations of hormone-type PGRs. In the 1970s, scientists identified polyamine for development into a new type of PGRs which has subsequently become generally known as regulatory-type PGRs. To date, five categories of polyamine have been discovered, namely, DCPTA, putrescine, cadaverine, spermine and agmatine. Of these, only DCPTA has, so far, been put to commercial production for agricultural use.

3. The plant growth regulators industry in the PRC

According to the Department of Petroleum and Chemical Industry of Fujian Province, there are currently more than 100 producers of hormone-type PGRs in the PRC, while the Group is the only producer of DCPTA-based regulatory-type PGRs. As shown by regulatory provisions and policy statements introduced or issued in the PRC in recent years, there is a growing tendency on the part of the PRC government to encourage the transition from the use of hormone-type PGRs to regulatory-type PGRs in the PRC agricultural industry. However, as the research and development of regulatory-type PGRs requires considerable capital investment and technical expertise and this could constitute an entry barrier to the PGR industry in the PRC, the policy of the PRC government itself is not expected to intensify the competition of the PGR industry in the PRC.

INDUSTRY OVERVIEW

In 1996, the then Ministry of Chemical Industry issued the Regulations relating to the strengthening of the Management of the Agricultural Chemical Industry. These regulations stipulate that to prevent wasting of capital resources, no approval or registration will be allowed in respect of agricultural chemicals which are ineffective, highly toxic, over-produced or technologically out-dated. The products for which no approval or registration would be allowed include various hormone-type PGRs, such as mepiquat chloride and paclobutrazol (both being absoisic acid based hormone-type PGRs), ethephon (an ethylene based hormone-type PGR) and gibberellic acid (a gibberellin based hormone-type PGR).

In the Blue Paper on Policies relating to Agricultural Science and Technology in the PRC published in 1997 by the State Commission of Science and Technology, it was noted that PGRs represented only a very small portion of agricultural chemicals produced and used in the PRC notwithstanding their significant potential in improving crop yield and quality when compared with traditional agricultural technology. The policy paper urged the full-scale development of PGRs as a new industry distinct from fertilisers and pesticides.

In 1998, the National Agricultural Technology Promotion Service Centre of the Ministry of Agriculture published the Notice of Increasing the Promotion of “Chaoda” Plant Growth Regulators which was circulated to every agricultural technology centre throughout the PRC. The notice promoted the increased use of the Group’s regulatory-type PGR products. The Group’s products were also listed by the State Science and Technology Commission under the National Priority Promotion Programme of Scientific Achievement of the Ninth Five-year Plan.

As evidenced by its policies and statements in recent years, the PRC government has demonstrated a high degree of commitment to the modernisation of agricultural technology as the future direction for the development of the agricultural industry in the PRC.

BUSINESS DESCRIPTION

The Group is principally engaged in the production and sale of DCPTA-based regulatory-type plant growth regulators (or PGRs) in the PRC and trading of pesticides, fertilisers and other agricultural resources products sourced from other manufacturers in the PRC through the agricultural resources supermarket stores set up by the Group.

The Group produces six specific purpose DCPTA-based regulatory-type PGRs, namely, PGRs for vegetables, fruits, rice, tobacco, flowers and edible fungi. In the year ended 30th June, 2001, sales of the PGRs for vegetables, fruits, rice, tobacco, flowers and edible fungi accounted for approximately 18.07%, 34.90%, 29.78%, 14.95%, 1.18% and 1.12%, respectively, of the Group's turnover derived from the sale of PGRs. All of the Group's PGR products are sold under the "Chaoda" trade mark pursuant to licensing agreements between the Group and Chaoda Group.

The Group commenced commercial production of PGRs in 1997 in Xiamen, Fujian Province, the PRC. The Group's present production facility is located in Huian County, Fujian Province, the PRC. It commenced production in May 2000 and is currently equipped with eight production lines which are owned and operated by the Group. The Group has a maximum annual production capacity of 2,240 tonnes of PGRs.

The Group set up 44 agricultural resources supermarket stores in Fujian Province since March 2001. These agricultural resources supermarket stores are run by participating agricultural resources wholesale dealers. The Group sells to such dealers PGRs, pesticides, fertilisers and other agricultural resources products produced by the Group as well as other PRC agricultural resources manufacturers.

HISTORY AND DEVELOPMENT

Mr. Wu began to carry out research studies on agricultural technology with particular focus on the production of DCPTA-based regulatory-type PGRs from polyamine in 1992. He succeeded in completing the development of a DCPTA-based regulatory-type PGR in late 1994.

Mr. Wu then applied for the registration of the DCPTA-based regulatory-type PGR developed by him under the classification of pesticide with the State Bureau of Petroleum and Chemical Industry. In obtaining this registration, the chemical composition of the PGR had to be tested and verified by the State Bureau of Petroleum and Chemical Industry. Mr. Wu also applied for registration of the product under the classification of pesticide with the Ministry of Agriculture, according to which the PGR had to be subject to various testings as well as field experiments which involved the application of the PGR in the cultivation of various agricultural produce at three locations over a period of two years. Such testings and experiments were carried out by independent agricultural technology institutions or universities on behalf of the Ministry of Agriculture, the primary purpose of which was to verify the effect and safety in use of the PGR. The registrations with the Ministry of Agriculture and the State Bureau of Petroleum and Chemical Industry were obtained under the name of Xiamen Defeng Fine Chemical Industry Co., Ltd. (the former name of Xiamen Genben, which is currently a wholly-owned subsidiary of the Company) in April and May 1997, respectively.

The Directors believe that the State Bureau of Petroleum and Chemical Industry classified chemicals used for agricultural purposes into either fertilisers or pesticides, and the PGR, being a relatively new chemical for agricultural purposes in the PRC, was classified into pesticides since its chemical composition was relatively different from that of fertilisers.

Mr. Wu then planned to begin commercial production of the DCPTA-based regulatory-type PGR developed by him by way of establishing a joint venture in the PRC. He reached an agreement with Mr. Tung Fai (being one of the Directors) and Madam Chiu Na Lai (who is independent of and not connected with any of the Directors or substantial shareholders of the Company and their respective associates) that they would invest in such an equity joint venture through Loyal Faith.

So far as the Directors are aware, Mr. Tung Fai is not a director of Chaoda Group and does not maintain any business relationship with Chaoda Group. So far as the Directors are aware, Madam Chiu Na Lai is currently a director of Chaoda Modern Agriculture (Holdings) Limited (a related company of Chaoda Group) whose securities are listed on the Stock Exchange.

In March 1997, Loyal Faith entered into a joint venture contract with Xiamen Kai Yuan and Xiamen Yien Yang, both independent PRC parties, for the establishment of Xiamen Genben as a Sino-foreign equity joint venture enterprise to engage principally in the production and sale of PGRs. Capital contributions and profit and loss were to be shared by Loyal Faith, Xiamen Kai Yuan and Xiamen Yien Yang in the proportion of 45%, 28% and 27% respectively. In June 1997, Xiamen Genben was established.

Loyal Faith and Xiamen Yien Yang made their respective capital contributions in the form of cash to Xiamen Genben in accordance with the joint venture contract, but Xiamen Kai Yuan failed to meet its capital contribution commitment. The capital contribution made by Loyal Faith was funded by Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai in the proportion of 80%, 10% and 10% respectively in accordance with their earlier agreement. In April 1997, after having provided funds to Loyal Faith to make its capital contribution to Xiamen Genben, Mr. Wu and Mr. Tung Fai became the beneficial owners of an 80% shareholding and a 10% shareholding in Loyal Faith (which were held by the registered holder thereof on trust for Mr. Wu and Mr. Tung Fai, respectively) while Madam Chiu Na Lai became a 10% shareholder. The respective interests of Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai in Loyal Faith were subsequently transferred to the Group in 1999.

Xiamen Genben commenced commercial production in July 1997. It then had one production line producing 40 tonnes of general purpose PGRs for the year ended 30th June, 1998. Being at the early stage of commercial production, the general production capacity of 40 tonnes in respect of the production line of Xiamen Genben for the year ended 30th June, 1998 was lower than its maximum annual production capacity of 280 tonnes.

As Xiamen Kai Yuan continued to fail to meet its capital contribution commitment to Xiamen Genben, in September 1997, the three joint venture parties agreed that Xiamen Kai Yuan's participation in the joint venture be terminated without liability. A new joint venture contract was entered into between Loyal Faith and Xiamen Yien Yang in October 1997 pursuant to which the total investment and the registered capital of Xiamen Genben was adjusted to the total amount of capital contributions already paid by Loyal Faith and Xiamen Yien Yang. The proportion in which capital contributions and profit and loss were to be shared between Loyal Faith and Xiamen Yien Yang was also adjusted to 62.67% and 37.33% respectively, with Loyal Faith being entitled to appoint the majority of the directors of Xiamen Genben. At the same time, the name of Xiamen Defeng Fine Chemical Industry Co., Ltd. was changed to Xiamen Genben.

In June 1998, Xiamen Genben completed the development of two new specific purpose regulatory-type PGRs for vegetables and for fruits. These specific purpose PGRs were improved products developed from the general purpose PGR that Xiamen Genben had been producing. These new products were introduced to the market in July 1998 and completely replaced the general purpose PGR. As advised by the Company's PRC lawyers, these specific purpose PGRs were only different variations of the DCPTA-based regulatory-type PGR and were not required to be separately registered with or approved by the relevant PRC government authorities.

In March 1999, the three original shareholders of Loyal Faith, Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai, established Yut Yat, an investment holding company. Yut Yat established Topmart, an investment holding company, in May 1999 which then proceeded to establish Fuzhou Topmart in July 1999 as a wholly foreign-owned enterprise in the PRC. Fuzhou Topmart set up a new production line at Xiamen Genben's production facility in Xiamen. This new production line commenced commercial production in September 1999 with a maximum annual production capacity of 280 tonnes of PGRs. The Group's maximum annual production capacity was then increased from 280 tonnes (which was the maximum annual production capacity of the production line operated by Xiamen Genben) to 560 tonnes of PGRs.

The respective interests of Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai in Yut Yat and, indirectly, in Loyal Faith were subsequently transferred to the Group in 1999 in consideration of the allotment of shares in the Company. Madam Chiu Na Lai had a 2.8% shareholding in the Company immediately after the completion of the Company's initial public offering and placing of Shares in November 1999. Since then, the Company has not been notified of Madam Chiu's interest in the Company pursuant to the SDI Ordinance. Based on the register of members of the Company as at 2nd November, 2001, Madam Chiu Na Lai is not a registered shareholder of the Company.

In order to raise funds for the further development of the Group's business and to enlarge the shareholder base of the Company, the Group undertook a reorganisation and the Company completed the initial public offering and placing of Shares in November 1999 and the Shares were first listed on GEM on 25th November, 1999.

BUSINESS

In May 2000, the Group completed the construction of its present production facility in Huian County, Fujian Province, the PRC with a site area of approximately 60,000 sq.m. Xiamen Genben's production operation was then transferred to the production facility in Huian County which commenced the commercial production of PGRs for rice with the addition of two new production lines and PGRs for tobacco with the addition of one new production line. The Group also added one more new production line for the production of PGRs for fruits. In addition, the research and development of PGRs for flowers and edible fungi were completed at the end of 2000 and the Group commenced the commercial production of such PGRs in June 2001 with the addition of one new production line for each new type of PGRs.

In January 2001, Fujian Topmart was established as a Sino-foreign equity joint venture between Topmart and Fuzhou Topmart to engage in the production and sale of PGRs. At that time, the Directors considered that a Sino-foreign equity joint venture would facilitate the development of the Group's business of production and sale of PGRs in the PRC since such a form of foreign investment enterprises would be more acceptable to Group's future business partners in the PRC if the Group entered into cooperative arrangements with them.

Since May 2000, the Group does not have any production facility except those in Huian County, Fujian Province, the PRC. After its establishment, Fujian Topmart principally operated the Group's production facility in Huian County. Xiamen Genben and Fuzhou Topmart only maintained minimal production operation in the Group's production facility after they transferred most of the production operation to Fujian Topmart for centralising the production management and other administrative works.

The following table summarises information relating to the production capacities of the Group as at the year end of each of the three years ended 30th June, 2001:

	As at 30th June,		
	1999	2000	2001
Number of production line(s)	1	6	8
Actual production of PGRs for the year ended 30th June (tonnes)	182	746	1,382
Maximum annual production capacity of PGRs (tonnes)	280	1,680	2,240

Three subsidiaries of the Company are currently engaged in the same business of production and sale of PGRs in the PRC. They are Fujian Topmart, a Sino-foreign equity joint venture, and Xiamen Genben and Fuzhou Topmart, both wholly foreign-owned enterprises, and were set up at different times when the Directors considered that the form of foreign investment in the PRC would best serve the interests of the Group's future development. Xiamen Genben is engaged in the production and sale of PGRs for vegetables. Fuzhou Topmart is engaged in the production and sale of PGRs for fruits and currently holds a 30% interest in Fujian Topmart and a 24% interest in Pinghe Topmart. Fujian Topmart is engaged in the production and sale of all types of PGRs of the Group and currently holds a 66% interest in Pinghe Topmart and a 95.5% interest in Shanxi Topmart.

In March 2001, Pinghe Topmart was established to set up agricultural resources supermarket stores in Fujian Province and sell PGRs, pesticides, fertilisers and other agricultural resources products sourced in the PRC in order to broaden the Group's profit base and strengthen its existing market network on PGRs. Pinghe Topmart is owned as to 90% by the Group and as to 10% by Fujian Jinxi which (other than being a substantial shareholder of Pinghe Topmart) is independent of and not connected with any of the Directors or substantial shareholders of the Company and their respective associates.

In October 2001, Shanxi Topmart was established to engage in the trading of PGRs, pesticides, fertilisers and other agricultural resources products in Shanxi Province. It is owned as to 95.5% by Fujian Topmart and as to 4.5% by Fujian Chaoda Group (which is independent of and not connected with any of the Directors or substantial shareholders of the Company and their respective associates but which is associated with Chaoda Group, a major customer of the Group and the owner of the "Chaoda" trade mark).

Both Pinghe Topmart and Shanxi Topmart are limited liability companies established under the laws of the PRC, and the capital contribution by their shareholders and the distribution of any dividends are in accordance with the proportion of the shareholders' interests in the relevant company.

The Directors consider that if the trading business of agricultural resources products is expanded to more provinces in the PRC and the exclusive distribution rights in respect of more agricultural resources products are secured, this trading business may become profitable.

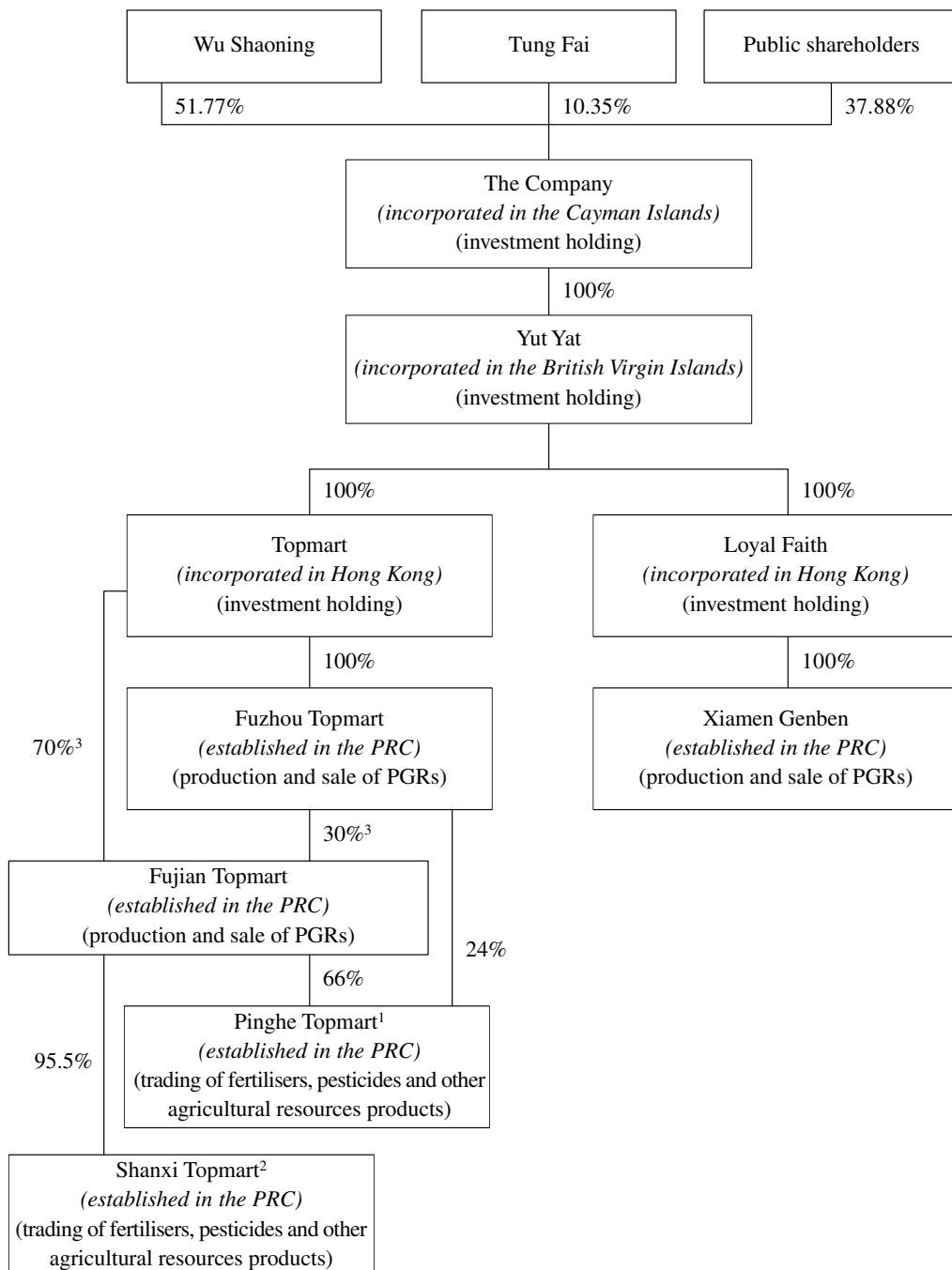
To cope with the expansion of the Group's business, the Group proposes to increase the total investment and the registered capital of Fujian Topmart. The Group is applying to the relevant PRC authority for such increase and the Directors expect that the procedure will be completed before January 2002.

All of the Group's subsidiaries established in the PRC have been approved by the relevant government authorities and have obtained valid business licences.

Please also refer to "Future Plans" for information relating to the Group's future business plan.

GROUP STRUCTURE

The chart below illustrates the shareholding and corporate structure of the Group as at the Latest Practicable Date:



Notes:

1. Pinghe Topmart is 10% owned by Fujian Jinxi.
2. Shanxi Topmart is 4.5% owned by Fujian Chaoda Group.
3. The Group is applying to the relevant PRC authority for the increase of the total investment and the registered capital of Fujian Topmart. If the application is approved, the interests of Topmart and Fuzhou Topmart in Fujian Topmart will be changed to 36.5% and 63.5%, respectively.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In the Prospectus, certain business objectives of the Group were stated. Set out below is a comparison of the business objectives of the Group for the two years ended 30th June, 2001 stated in the Prospectus and the actual business progress for the two years ended 30th June, 2001 or, if applicable, the changes in such business objectives.

Business objectives as stated in the Prospectus**Actual business progress/change in business objectives (if any)**

For the year ended 30th June, 2000

- PRGs for rice and tobacco are in their final stages of development and commercial production of the above products is expected to commence in March 2000.
- In September 1999, the Group signed a non-binding letter of intent with Fuzhou Cangshan Hi-Tech Science Park Management Office for the acquisition of the land use rights to a vacant site of approximately 20,000 sq.m. at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province for a consideration of RMB8.4 million.
- A new production facility comprising a production plant, a warehouse and an office building will be established on the aforesaid Fuzhou site. The Group expects construction to commence in December 1999 and be completed by February 2000. The acquisition cost of the Fuzhou site and the construction cost of the new production facility on such site are estimated to be approximately HK\$15 million.
- Commercial production of PGRs for rice and tobacco commenced in early May 2000.
- Having considered the development costs and the scale of its future operations, the Group did not proceed with the original letter of intent and no deposit was paid or forfeited in that respect. Instead, the Group signed a contract with Huian Chengnan Central Industrial District Development Co., Ltd. for the acquisition of the land use rights to another vacant site of approximately 60,000 sq.m. at Huian Economic Development District, Fujian Province at a consideration of RMB9 million, which was paid and was financed by the net proceeds of the Share Offer.
- The new production facility was established on the Huian site. The construction work was completed in May 2000. Apart from the RMB9 million for the acquisition of land use rights as mentioned above, the Group also signed contracts for various construction works with total contract sum amounted to approximately RMB10 million, which was paid and was financed by the net proceeds of the Share Offer.

Business objectives as stated in the Prospectus

- Four production lines, one for PGR for fruits, one for PGR for tobacco and two for PGR for rice, will be acquired with total estimated cost of establishment of approximately HK\$20 million. The four new production lines are expected to commence commercial production in March 2000. The Group's total annual production capacity will then be increased from 560 tonnes to 1,680 tonnes of PGRs.
- The Group plans to employ approximately 100 additional sales staff and incur approximately HK\$7 million for its hiring of additional sales staff and advertising and promotion activities particularly in relation to the two new PGRs for tobacco and rice to be launched during the second half of the year ending 30th June, 2000.

For the year ended 30th June, 2001

- The Group has started initial research studies on the development of four new PGRs for fungi, flowers, corn and oil seeds. The Group expects that the research and development work on PGRs for fungi and flowers will be completed before the end of year 2000 and intends to launch these products in the first half of year 2001.

Actual business progress/change in business objectives (if any)

- The Group signed contracts with suppliers of different parts of the four production lines with total contract sums amounted to approximately RMB23 million which was paid and was financed by the net proceeds of the Share Offer. The construction and installation of the four production lines was completed in April 2000. The Group's total annual production capacity was increased from 560 tonnes to 1,680 tonnes of PGRs.
- The Group hired approximately 100 additional sales staff. In addition, the Group signed a contract with a business advertising and promotion services company for nationwide advertising and promotion activities in relation to the marketing of the two new PGRs for tobacco and rice in the PRC, with the contract sum amounted to RMB7.6 million, which was paid and was financed by the net proceeds of the Share Offer. The Group also completed the establishment of an internet website for product promotion, the cost of which was included in the contract sum of RMB7.6 million. The Group also incurred approximately RMB2 million for other advertising and promotion activities such as newspaper advertising and promotion video.
- The Group had cooperation with three different research centres for the research and development works on the four new PGRs, including testing and conducting field experiments. By the end of year 2000, the research and development works on PGRs for fungi and flowers were completed and commercial production of these two new PGRs commenced in June 2001.

Business objectives as stated in the Prospectus

- The total cost for research and development of four new PGRs for fungi, flowers, corn and oil seeds are estimated to be approximately HK\$10 million, out of which about HK\$6 million is expected to be incurred during the year ending 30th June, 2001. The Group has not set aside funds for research and development for the year ending 30th June, 2000.
- The Group plans to construct two additional production lines, one of which will be used for the production of PGR for fungi and the other for the production of PGR for flowers. The total estimated construction cost of the two production lines is HK\$10 million, which the Group intends to finance from its internal resources. The construction is expected to be completed in early 2001, with commercial production targeted to commence in the first half of year 2001.
- The Group estimates that a further amount of approximately HK\$3 million of the net proceeds of the Share Offer will be used as part of sales and promotion expenses during the year ending 30th June, 2001.
- By the end of the year ending 30th June, 2001, the Group expects to have eight production lines in operation with a total annual production capacity of 2,240 tonnes of PGRs. The Group estimates that the annual production capacity of PGR for vegetables, fruits, tobacco, rice, fungi and flowers will then reach approximately 280 tonnes, 560 tonnes, 280 tonnes, 560 tonnes, 280 tonnes and 280 tonnes respectively.

Actual business progress/change in business objectives (if any)

- The total contract sums of research and development of the four new products amounted to approximately RMB10 million. Since initial research studies had been started, in order to ensure that the targeted timing of launching the new products could be met, the Group made progress payments of approximately RMB5 million during the year ended 30th June, 2000, which was financed by the net proceeds of the Share Offer, to the research centres so as to speed up their work. An addition of approximately RMB2 million was paid as progress payments during the year ended 30th June, 2001.
- The total construction cost of the two new production lines amounted to approximately RMB8 million, which was paid and was financed from internal resources of the Group. The construction of production lines was completed in May 2001 and commercial production of the two PGRs for fungi and flowers commenced in June 2001.
- The Group signed a renewal contract with the previous business advertising and promotion services company for nationwide advertising and promotion activities for the Group's products for the year 2001. The contract sum amounted to RMB8 million, of which RMB4 million was paid and was financed from the net proceeds of the Share Offer.
- After the installation of the two new production lines for PGR for fungi and flowers, the Group's annual production capacity was increased from 1,680 tonnes to 2,240 tonnes of PGRs.

PRODUCTS

The Group produces DCPTA-based regulatory-type PGRs and is currently the only producer of such type of PGRs in the PRC.

All of the Group's PGR products are sold under the "Chaoda" trade mark. The trade mark is owned by Chaoda Group and registered in the PRC. Pursuant to licensing agreements entered into between the Group and Chaoda Group, Chaoda Group granted an exclusive licence to the Group to use the "Chaoda" trade mark and brand name in connection with the production and sale of PGR products. For details of the licensing agreements, please refer to "Business — Intellectual Property Rights — Trade mark" in this document.

The production of chemical products in the PRC is regulated by the State Bureau of Petroleum and Chemical Industry. Each type of chemical products is subject to different product classification by the State Bureau of Petroleum and Chemical Industry and according to such classification, different testing procedures and regulatory requirements. The sale of fertilisers, pesticides, PGRs and certain other ancillary products for the agricultural industry in the PRC is regulated by the Ministry of Agriculture. Each such product is subject to different product classification by the Ministry of Agriculture and according to such classification, different regulatory requirements. As PGR is an agricultural chemical, its production and sale in the PRC are currently regulated by both the State Bureau of Petroleum and Chemical Industry and the Ministry of Agriculture. Agricultural chemicals may fall under the product classification of either fertilisers or pesticides and depending on such classification, are subject to different testing procedures and regulatory requirements, and are entitled to different preferential policies such as exemption from value-added tax and reduction of enterprise income tax if they satisfy specific requirements within their classification. The Ministry of Agriculture and the State Bureau of Petroleum and Chemical Industry have, respectively, issued a certificate for pesticide temporary registration and a production approval certificate to the Group's PGRs.

The Directors understand that it is the policy of the Ministry of Agriculture to issue a certificate for pesticide temporary registration which requires renewal each year. The Ministry of Agriculture will process a number of applications for pesticide or fertiliser registration at a particular time and will only issue a certificate for pesticide or fertiliser formal registration every few years to all such applications. The certificate for formal registration will require renewal in every three to five years, depending on the types of pesticides or fertilisers.

The DCPTA-based regulatory-type PGR of the Group has been registered under the classification of pesticide in both the State Bureau of Petroleum and Chemical Industry and the Ministry of Agriculture and its products are entitled to an exemption from PRC value-added tax for an indefinite period of time under the current PRC rules and regulations. In obtaining the registration from the State Bureau of Petroleum and Chemical Industry, the chemical composition of the PGR had to be tested and verified by it. In addition, in obtaining the registration from the Ministry of Agriculture, the PGR had to be subject to various testings as well as field experiments which involved the application of the PGR in the cultivation of various agricultural produce at three locations over a two-year period. Such testings and experiments were carried out by independent agricultural technology institutions or

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universities on behalf of the Ministry of Agriculture, the primary purpose of which was to verify the effect and safety in use of the PGR. The registration covers all of the specific purpose regulatory-type PGRs produced by the Group so long as they are DCPTA-based and no separate registration, testing or field experiment is required for each specific purpose PGR.

The following table summarises the contribution of each type of DCPTA-based regulatory-type PGR to the turnover of the Group derived from the sale of PGRs for each of the three years ended 30th June, 2001.

	For the year ended 30th June,					
	1999		2000		2001	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
PGR for vegetables	10,405	49.39	30,547	35.22	29,603	18.07
PGR for fruits	10,660	50.61	41,406	47.74	57,183	34.90
PGR for rice	—	—	9,315	10.74	48,782	29.78
PGR for tobacco	—	—	5,464	6.30	24,495	14.95
PGR for flowers	—	—	—	—	1,933	1.18
PGR for edible fungi	—	—	—	—	1,839	1.12
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>21,065</u>	<u>100</u>	<u>86,732</u>	<u>100</u>	<u>163,835</u>	<u>100</u>

RAW MATERIALS

The principal raw materials used by the Group in its production process include various types of alcohols, organic acids, polymerides and organic solutions. Costs of raw materials account for a significant part of the Group's total production costs. In each of the three years ended 30th June, 2001, raw materials accounted for approximately 54.1%, 69.3% and 69.7% of the Group's total production costs, respectively and approximately 15.6%, 15.3% and 16.4% of its turnover from sale of PGRs, respectively. During the three years ended 30th June, 2001, as the production scale of the Group continued to increase, the fixed costs of production as a proportion of the total production costs gradually decreased while raw materials costs as a proportion of the total production costs gradually increased. Other production costs mainly include labour costs and manufacturing overheads such as depreciation, amortisation of development expenditure, rental and water and electricity charges. The following table shows a breakdown, by value and by percentage, of the costs of major raw materials and the proportion that the total raw material costs borne to the total production costs as well as the turnover from the sale of PGRs, respectively, in each of the three years ended 30th June, 2001.

BUSINESS

For the year ended 30th June,

	1999		2000		2001	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Polymerides	1,289	21.2%	5,482	28.7%	10,378	27.0%
Packaging materials	921	15.1%	3,468	18.1%	7,806	20.3%
Alcohols	516	8.5%	1,707	8.9%	3,716	9.6%
Emulsifying agents	389	6.4%	1,223	6.4%	2,601	6.8%
Others	177	2.9%	1,365	7.2%	2,330	6.0%
Total raw material costs	3,292	54.1%	13,245	69.3%	26,831	69.7%
Total production costs	6,085	100%	19,113	100%	38,508	100%
Turnover from sale of PGRs	21,065		86,732		163,835	

The principal raw materials consumed by the Group are commonly available chemicals with ample supply in the PRC.

The Group normally enters into an annual purchase agreement with major suppliers whereby the prices, quality and specifications of the raw materials required are stated. Transportation costs are borne by the suppliers since the establishment of the Group in 1997. All raw materials are inspected by the Group on delivery to ensure that they are of the required quality. The Group usually fully settles the purchases within one month after delivery by cash in Renminbi.

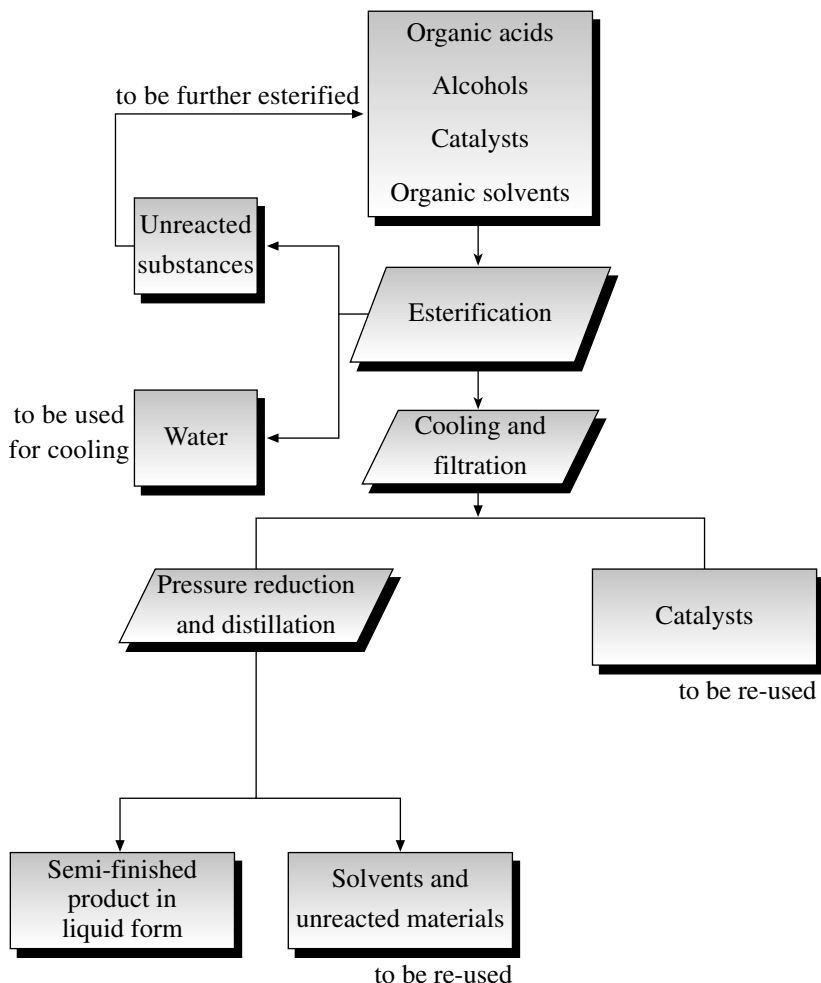
In each of the three years ended 30th June, 2001, the largest five suppliers of the Group, together, accounted for approximately 74.8%, 62.0% and 64.7% respectively, and the single largest supplier accounted for approximately 26.5%, 23.6% and 33.2% respectively, of the Group's total purchases. None of the Directors, their respective associates (as such terms are defined in the Listing Rules) or any shareholder of the Company which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any interest in any of the five largest suppliers of the Group.

PRODUCTION PROCESS

The basic production process for the different types of the Group's regulatory-type PGRs is the same, but different quantities and combinations of the chemical raw materials have to be used for the production of each specific purpose PGR.

The following diagrams illustrate the major stages of the production process of the Group:

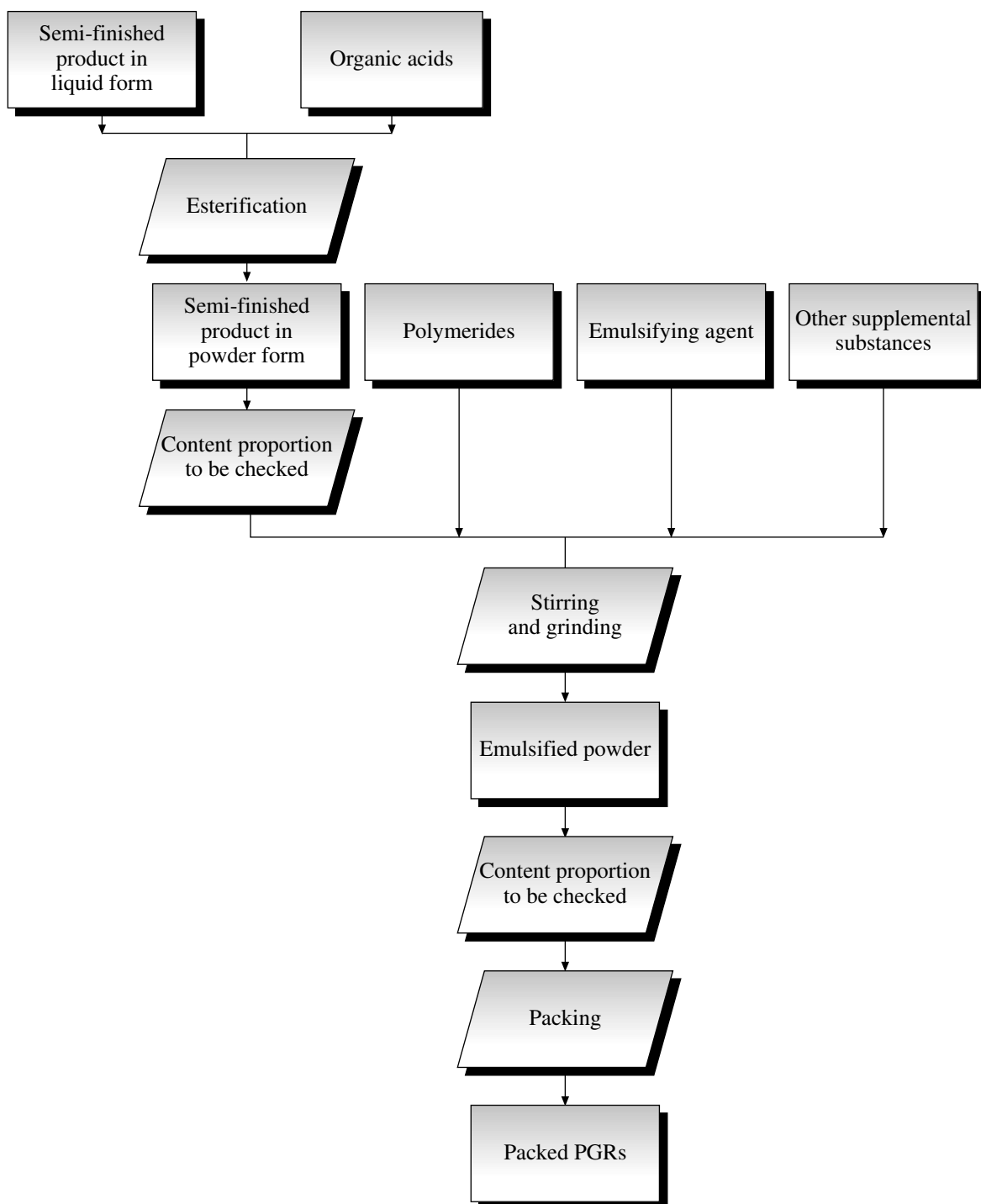
(a) Production process leading to semi-finished product in liquid form



The production process leading to semi-finished product in liquid form involves the following principal steps:

- organic acids, alcohols, catalysts and organic solvents in specific quantities are mixed in a special reactor (the proportion in which each of these chemicals has to be used forms part of the Group’s confidential technical knowhow);
- the mixture in the special reactor is heated to over 200 degrees celsius until reaction takes place, such process being referred to as esterification;
- the esterified mixture is allowed to cool to room temperature, and is then filtered and distilled under a reduced-pressure environment; and
- the content proportion of the esterified mixture is tested to ensure that its DCPTA concentration is not less than 98%.

(b) Production process leading to final product in powder form



The production process leading to the final product in powder form involves the following principal steps:

- further quantities of organic acids are added to the semi-finished product in liquid form and a further esterification process is carried out at the end of which a semi-finished product in powder form is produced and its content proportion is then tested to ensure that its DCPTA concentration is not less than 50%;
- the semi-finished product in powder form is then mixed with polymerides, emulsifying agent and other supplemental substances in specific quantities, and grinded to form emulsified powder which is the final PGR product;
- the content proportion of the emulsified powder is tested to ensure that its DCPTA concentration is about 8% to 9% (when the PGR is used, it has to be dissolved in water and the higher the level of DCPTA concentration in the PGR, the larger the quantity of water that has to be used, and for this reason, an 8% to 9% DCPTA concentration enables the PGR to be used at an acceptable cost to end users); and
- the emulsified powder is machine-packed.

The entire production process takes about 14 hours to complete. It is mostly automated and is primarily a process involving chemical reactions.

QUALITY CONTROL

The Group maintains high standards of product quality and customer services. It implements stringent quality control measures throughout its production process and each processing procedure is subject to quality checks. The quality control measures include, among other things, checking on the quality of raw materials before production, testing on the semi-finished products and finished products and regular technical training provided to the staff. The Group labels each bag of its products with a serial number to facilitate the tracing of any defective products and dealing with customer enquiries.

The Group has never had any material sales return and has never received any material complaints from its customers. For the three years ended 30th June, 2001, the wastage rate in the Group's production process was less than 3%. The Directors believe that the low sales return and wastage rate are attributable to the quality control measures adopted by the Group.

The Group's products are sold with detailed printed information on their functions, specifications and method of application. The Group's sales and technical staff makes regular visits to its major customers to provide technical guidance on the use of its products and to collect customers' feedback on product quality and effectiveness.

The Group's PGR production was accredited the ISO 9001 certificate, demonstrating that the Group's quality management systems are up to international standards. The ISO 9001 certificate is valid until February 2005. The Directors do not anticipate that there will be any adverse effect if the certificate is not renewed.

BUSINESS

SALES

The Group sells all of its products in the PRC. It currently has more than 50 regular wholesale customers located in over 19 provinces in the PRC. A geographical breakdown of the Group's sales in each of the three years ended 30th June, 2001 is set out below:

Region	For the year ended 30th June,					
	1999		2000		2001	
	Amount	Percentage of	Amount	Percentage of	Amount	Percentage of
	total sales	total sales	total sales	total sales	total sales	total sales
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Southern China (Fujian, Jiangxi and Guangdong Provinces)	8,451	40%	39,014	45%	99,096	53%
Central China (Henan, Anhui, Hubei and Hunan Provinces)	4,685	22%	17,841	21%	30,305	16%
Northeastern China (Shandong, Shanxi, Liaoning, Hebei and Jiangsu Provinces and Beijing)	4,318	20%	15,669	18%	35,986	19%
Southwestern China (Sichuan, Yunnan and Guizhou Provinces)	2,210	11%	9,239	10%	10,552	6%
Northwestern China (Xinjiang, Shaanxi and Gansu Provinces)	1,401	7%	4,969	6%	11,222	6%
Total	21,065	100%	86,732	100%	187,161	100%

The Group sells its PGR products under the "Chaoda" trade mark and brand name which are owned by Chaoda Group. The Group has an exclusive licence right to use the "Chaoda" trade mark and brand name in connection with the production and sale of PGR products. Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and its "Chaoda" trade mark and brand name are well-established in the PRC agricultural industry since 1997.

Chaoda Group has been the Group's single largest customer. Sales to Chaoda Group accounted for approximately 29.1%, 28.5% and 21.9% of the Group's respective turnover for each of the three years ended 30th June, 2001. The Group has been selling its products to Chaoda Group on the same terms (including as to price and payment) as those applicable to the Group's other customers.

The Group entered into a sales contract with Chaoda Group pursuant to which Chaoda Group agreed to purchase not less than a minimum aggregate quantity of 300 tonnes of any kind of the Group's PGR products (including the six existing types of PGR products as well as other types of PGR products that the Group may produce) in the year ending 30th June, 2002 and in each of the four financial years thereafter. The products will be sold to Chaoda Group at the same prices as the Group sells to its other customers from time to time. If the minimum quantity is not purchased by Chaoda Group in any period, it will have to pay to the Group a cash amount to compensate for the shortfall between the minimum quantity and the actual purchased quantity which will be calculated on the basis of the average price at which the Group has sold its PGRs to Chaoda Group during the relevant period. Each of the Group and Chaoda Group is entitled to terminate the sales contract before the end of its term on certain grounds, including where the other party commits a material breach of any of the terms of the sales contract and such breach is not remedied within a specified time or such other party goes into liquidation or ceases to carry on business. While it is the Group's intention to continue broadening its customer base, the Directors foresee that Chaoda Group will remain one of the Group's major customers in the near future.

Apart from Chaoda Group, the Group sells its PGR products to two other major types of customers. They are agricultural resources companies from whom farmers purchase most of their supplies such as fertilisers, pesticides, agricultural tools and machinery, and agricultural technology promotion centres which are responsible for providing technical assistance and introducing more advanced agricultural technology to farmers. Most of the agricultural resources companies and the agricultural technology promotion centres are entities with sales agents throughout the PRC. In addition, the Group also sells its PGR products through the agricultural resources supermarket stores set up by the Group. The Directors believe that the combination of Chaoda Group, the agricultural resources companies, the agricultural technology promotion centres and agricultural resources supermarket stores set up by the Group provides the Group with a strong and comprehensive sales and distribution network throughout the PRC.

In each of the three years ended 30th June, 2001, the five largest customers, together, accounted for approximately 47.6%, 40.8% and 35.0% respectively, and the single largest customer accounted for approximately 29.1%, 28.5% and 21.9% respectively, of the Group's turnover. None of the Directors, their respective associates (as such terms are defined in the Listing Rules) or any shareholder of the Company which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any interest in any of the five largest customers of the Group.

The Group has full discretion in setting its product prices in the light of market conditions and is not subject to any legal or regulatory controls on pricing. All of the Group's sales are denominated in Renminbi. Customers with good credit history of more than six months are allowed a 60-day credit period for a maximum of 40% of the sales amount in respect of each purchase order. The Group has not experienced material bad debts or doubtful debts in the past. The provision for bad and doubtful debts for the three years ended 30th June, 2001 were less than 1% of the respective turnover of the Group, being approximately nil, HK\$491,000 and HK\$457,000, respectively.

MARKETING

The Group commands regional representatives in eight regions in the PRC, namely, Beijing and Shandong, Jiangsu, Henan, Hubei, Shaanxi, Xichuan and Fujian Provinces. The Group has not set up any representative office in the PRC and these regional representatives are sales staff of the Group. They facilitate the promotion and sales of the Group's PGR products in different parts of the PRC. The Group's other promotion activities include staff visits to agricultural communities, television and billboard advertising, and distribution of banners, leaflets and free samples of the Group's products. The Group also has arrangements, since mid-2000, with various farms to act as its "model farms" where the Group's PGR products are applied in the cultivation of different types of vegetables, fruits and other agricultural produce. The produce from these farms can be used for demonstrating to the customers the effectiveness of the Group's PGR products by way of comparisons. The Group, in conjunction with the agricultural technology promotion centres, arrange visits to its model farms and host introductory talks on its products for farmers and agricultural resources products dealers. At present, there are five such model farms in operation, two being situated in each of Hainan Province and Shaanxi Province and one being in Fujian Province, in respect of which the Group spent approximately RMB3,500,000 since July 2000. The Directors consider that the Group's PGR products will be more recognised by the customers as a result of the demonstration of the effectiveness of the Group's PGR products in these model farms. As such activities are normal commercial activities between the Group and the owners of the model farms, no special governmental approval is required.

The Group incurs more expenditures and efforts for marketing and promotion purposes during the first and second years of the launch of any new products. The Group's expenditures on various advertising and promotion activities were approximately HK\$69,000, HK\$5,839,000 and HK\$18,826,000 respectively for each of the three years ended 30th June, 2001, representing approximately 0.3%, 6.7% and 10.1% of the Group's respective turnover.

In order to strengthen the Group's market network on PGRs and to broaden the Group's profit base, the Group began to sell PGRs, pesticides, fertilisers and other agricultural resources products sourced in the PRC through agricultural resources supermarket stores set up by the Group since March 2001. The Directors believe that this will enable the Group to more effectively promote the Group's PGR products.

Agricultural resources supermarket stores

Since March 2001, the Group set up agricultural resources supermarket stores and sold PGRs, pesticides, fertilisers and other agricultural resources products to participating agricultural resources wholesale dealers in Fujian Province, the PRC. As at the Latest Practicable Date, the Group set up 44 agricultural resources supermarket stores in Fujian Province, with a total area of approximately 20,000 sq.m. The capital expenditure incurred by the Group to set up the agricultural resources supermarket stores amounted to approximately HK\$1,095,000 for the year ended 30th June, 2001. These agricultural resources supermarket stores are run by participating agricultural resources wholesale dealers. These dealers sell PGRs, pesticides, fertilisers, seeds, sapling and other agricultural resources materials, as well as provide agricultural technical consultation services to farmers. Besides the sales of the Group's PGRs under the "Chaoda" brand name, these stores also sell fertilisers, pesticides and other agricultural resources products sourced in the PRC and produced by the PRC agricultural resources manufacturers.

Being participating agricultural resources wholesale dealers, they can sell those agricultural resources products that the Group has the exclusive right to distribute in Fujian Province, and their operation costs will be minimised as the Group is responsible for paying the rentals of the premises of the stores and centralising the product intakes.

The Group centralises the purchases of agricultural resources products for the participating dealers. To ensure the supply of the agricultural resources products, the Group currently has secured the exclusive rights to distribute agricultural resources products in Fujian Province from over 20 agricultural resources products producers. Under the agreement between the Group and each of the producers of certain specified agricultural resources products, the Group agrees to sell in Fujian Province the specified products of the producer at a price not less than the agreed price between the Group and the producer, and the producer agrees that during the term of the agreement with the Group, it will not sell the specified products in Fujian Province, except through the Group. Each of the agreements between the Group and the producers of agricultural resources products is for a term of one year. The agreement also provides that if either party breaches the terms of the agreement, the non-defaulting party may terminate the agreement and demand the defaulting party to compensate for any economic loss.

Each of the agricultural resources supermarket stores is not a separate legal entity in which the Group has an interest. The Group invites the participation of local agricultural resources wholesale dealers to run the agricultural resources supermarket stores and requires the name of each store to bear the words “Chaoda Topmart”. The Group provides the decoration and the premises for the stores and pays the rentals of the premises. The Group is responsible for centralising product intakes and the publicity and promotion of the brand name as well as developing the sales plan of the agricultural resources products and development plans of the agricultural resources supermarket stores. The participating dealers are responsible for the operating expenses, promotion of products and provision of technical consultation services on the Group’s product intakes. The business licence of each store is issued in the name of the participating dealer. The Company’s PRC lawyers have confirmed that the agreements between the Group and the participating dealers are permitted under the PRC laws and do not require any specific PRC governmental approval.

The Group does not share any profits with the participating dealers. The Group’s profit is derived from the sales of agricultural resources products to the participating dealers who then sell such products to their customers. Under the agreements with the Group, the participating dealers may not purchase agricultural resources products from companies outside the Group and all the products to be sold in the stores shall be sourced by the Group, unless the Group gives its prior approval to the participating dealers or the Group fails to provide agricultural resources products specified by the participating dealers within a reasonable period of time.

The Group selects participating dealers based on the Group’s experience in its previous dealings with such dealers, the dealers’ connections in the local agricultural resources market and their financial strength.

For the four months ended 30th June, 2001, the turnover attributed to the agricultural resources supermarket stores set up by the Group amounted to approximately HK\$23,326,000 (excluding the sales of PGRs produced by the Group), representing approximately 12% of the Group's total turnover for the year ended 30th June, 2001. However, considerable amount of preliminary expenses was spent during the early establishment stage, resulting in a loss from operations of approximately HK\$1.6 million for the trading of agricultural resources products for the year ended 30th June, 2001.

COMPETITION

The Group competes with other producers of hormone-type PGRs and distributors of agricultural resources products in the PRC and expects increased competition in the PGR market and the agricultural resources products market in the PRC after China's joining the World Trade Organisation.

There are over 100 producers of hormone-type PGRs in the PRC, while the Group currently remains to be the only producer of regulatory-type PGRs. However, the Group's regulatory-type PGRs are more technologically advanced and hence, are an improved product compared to hormone-type PGRs. The more technologically advanced nature of its products, in the Directors' view, provides the Group with its key competitive advantage.

The Directors believe that there is, at present, a minimal amount of PGRs imported into the PRC. Import tariff is currently levied on fertilisers and pesticides (in either categories of which PGRs may be classified) imported into the PRC. As China has become a contracting member of the World Trade Organisation and the PRC government has, on various occasions in the past two to three years, reduced import tariff on a wide range of products, this will result in foreign-made PGRs being imported into the PRC at lower tariff rates. The Directors believe that even if import tariff were to be lowered, it would not result in any immediate significant increase in the import of PGRs into the PRC as any imported product would first have to be subject to various official field tests over a period of time before it could be sold in the PRC. The Directors are also confident that the Group's PGR products would be able to maintain their price competitiveness.

ENVIRONMENTAL MATTERS

The Group does not discharge any waste water (except during the cleansing process as described below) or solid waste nor does it cause any air pollution during its production process. The Group's production process does, however, generate a certain level of noise which the Group has ensured to be kept within the permitted range prescribed by the PRC environmental regulatory authorities. All water, catalysts, solvents and other unreacted materials discharged during the production process are re-used in the production process. If a production line is used to produce a type of PGRs which is different from the one it has previously been producing, the equipment on such production line will have to be cleansed thoroughly to remove chemical residuals or impurities. During the cleansing process, acidic waste water is neutralised with alkaline solution before discharge. Such treatment has been certified as being in compliance with the standards prescribed by the PRC environmental regulatory authorities. The Group has not been subject to any penalties imposed by environmental regulatory authorities in the PRC.

In 2001, the Group's PGR production was accredited the ISO 14001 certificate, demonstrating that the Group's environmental management systems are up to international standards. The ISO 14001 certificate is valid until February 2005 and thereafter, the Group can apply for the renewal of the accreditation.

PROPERTY, PLANT AND MACHINERY

The Group's production plant is located in Chientang Village, Louyang Town, Huian County, Fujian Province, the PRC, occupying a total site area of approximately 60,000 sq.m. The production plant consists of five buildings with a total gross floor area of approximately 6,900 sq.m. for the production, research and testing as well as warehouse storage of the Group. The land use rights of the land on which the Group's production plant is situated were granted to the Group for a term of 50 years terminating in 2050. The Group applied for the relevant Building Ownership Certificates in March 2001. However, the relevant Building Ownership Certificates have not been obtained. The Directors expect that the application will be completed before April 2002 and a sum of approximately RMB300,000 will be payable for such application. At present, the Group has eight production lines with a maximum annual production capacity of 2,240 tonnes of PGRs and the Group's production is currently utilising approximately 67% of the maximum production capacity.

The Group has also leased three properties in Fuzhou, Fujian Province, the PRC, for a research centre (at an annual rental of approximately RMB96,000), an administrative office (at an annual rental of approximately RMB103,000) and a staff quarter (at an annual rental of approximately RMB13,000), respectively. As at 31st October, 2001, the Group leased from independent third parties 44 retail shops and four warehouses of various sizes in Fujian Province, the PRC, in relation to the trading of agricultural resources products.

In Hong Kong, the Group has also leased an office for administration purpose at a monthly rental of approximately HK\$42,000, as well as two residential units as Director's quarter and staff quarter.

As the Group's production involves special technical knowhow, its machinery has been specifically designed by research institutes. The Group in the past arranged at least two manufacturers to make different parts of its machinery in order to protect the confidentiality of its technical knowhow. The Group will continue to adopt such policy in the purchase of machinery in the future.

The property interests of the Group as at 31st October, 2001 have been valued by Sallmanns (Far East) Limited, an independent valuer. The text of the valuation report is set out in Appendix II to this document.

INTELLECTUAL PROPERTY RIGHTS

Patent

The Group's regulatory-type PGRs are produced from a combination of various types of organic acids, alcohols, catalysts and organic solvents. The quantities required of the materials, the duration for which and the temperature at which the materials are to be processed all form part of the confidential technical knowhow that is key to the Group's production process and is known only to Mr. Wu and certain other key technical and management personnel. Mr. Wu and such other personnel

are bound, in their service contracts with the Group, to observe strict confidentiality in respect of the Group's production knowhow. In addition, there is strict segregation of duties among personnel involved at the different stages of the Group's production process. This helps minimise the risk of any one staff member coming into possession of the technical knowhow related to the entire production process.

The most important part of the Group's production technology relates to the production of DCPTA, the base chemical from which specific purpose PGRs for different agricultural produce are produced. While the chemical compound structure of DCPTA is generally known, the process by which DCPTA may be produced has, to the knowledge of the Directors, remained to be confidential information. In July 1999, Mr. Wu applied to the PRC Patents Registry for patent registration in respect of the technical knowhow relating to DCPTA production and the application for patent registration is currently in progress. Pursuant to a patent assignment dated 13th September, 1999, Mr. Wu assigned all his rights and interests in such technical knowhow and the benefits of such application to the Company at a consideration of RMB60,000. The patent assignment dated 13th September, 1999 provided that the application right of the patent registration should be transferred by Mr. Wu to the Company within ten days after the signing of such assignment. However, the transfer of the application right of the patent registration involved complicated and time-consuming procedures. In addition, the Group has been fully making use of the technical knowhow during the course of its business and it was originally intended that the patent registration would be transferred to the Group upon the completion of the entire registration process (instead of transferring the application right in respect thereof). Accordingly, no arrangement was made to transfer the application right of the patent registration from Mr. Wu to the Group until November 2001.

To formalise the patent registration, at the direction of the Company and on the basis of the patent assignment dated 13th September, 1999 (which remains valid), Mr. Wu signed a patent assignment dated 30th November, 2001 with Fujian Topmart and appointed a patent agent recognised by the PRC Patents Registry in respect of patent registration matters in Fujian Province, the PRC, to make an application for the transfer of the application right in respect of the patent registration to Fujian Topmart in November 2001. The patent agent in Fujian Province submitted the application for such transfer to the PRC Patents Registry on 4th December, 2001 based on the patent assignment dated 30th November, 2001. The Directors understand that any similar transfer will normally require six months to complete all the necessary procedures in the PRC and expect the transfer of the application right to the Group will be completed before July 2002.

The entire registration process could take up to three years to complete. The PRC Patents Registry completed a preliminary inspection of the application and published certain information of the technical knowhow as required for the registration process in January 2001. The Group has not completed the registration but the Directors currently do not expect any difficulty in completing the registration in 2002.

Trade mark

The "Chaoda" trade mark is owned by Chaoda Group and registered in the PRC for a term of 10 years expiring on 20th August, 2007. Pursuant to trade mark licensing agreements entered into between the Group and Supreme Bonus (a company within Chaoda Group), Supreme Bonus granted to the Group the exclusive right to use the "Chaoda" trade mark and brand name in connection with

the production and sale of PGR products and the sale of certain agricultural resources products in the PRC and Hong Kong (though no such sale is proposed to be made in Hong Kong) for a fixed term of 25 years commencing from 15th June, 1998 (in respect of Xiamen Genben), 6th July, 1999 (in respect of Fuzhou Topmart), 2nd February, 2001 (in respect of Fujian Topmart) and 26th March, 2001 (in respect of Pinghe Topmart). The licence fee payable by each of Xiamen Genben, Fuzhou Topmart and Fujian Topmart to Supreme Bonus pursuant to the trade mark licensing arrangement with Supreme Bonus is an annual sum equivalent to 1% of its total turnover per year on the sale of PGRs, to be paid in arrears in each year (except that the license fee payable by Xiamen Genben to Supreme Bonus was RMB200,000 for the first year of the term of the licence). The licence fee payable by Pinghe Topmart to Supreme Bonus pursuant to such arrangement is an annual sum equivalent to 0.1% of its total turnover per year to be paid in arrears in each year. The licence fee payable by Xiamen Genben, Fuzhou Topmart and Fujian Topmart, respectively, was arrived at after arm's length negotiations between the Group and Supreme Bonus, after taking into account the market recognition of the "Chaoda" trade mark and the benefits derived from the use of the trade mark by the Group. The licence fee payable by Pinghe Topmart was also arrived at after arm's length negotiations between the Group and Supreme Bonus, after taking into account that

- Pinghe Topmart is engaged in the trading business of agricultural resources products and sells in addition to the Group's own products, products of other manufacturers which bear their own brand names;
- the use of the "Chaoda" trade mark is only for the name of the store; and
- the trade mark is used for the trading of agricultural resources products which is expected to be of substantial volume in the future.

The Directors consider that the basis for the licence fee agreed between the Group and Supreme Bonus is not inconsistent with the market practice for similar arrangements in the PRC.

For each of the three years ended 30th June, 2001, the license fee paid and payable by the Group was approximately HK\$187,000, HK\$867,000 and HK\$1,641,000 respectively.

Supreme Bonus has undertaken to pay the relevant fees for maintaining the registration of the "Chaoda" trade mark with the relevant registration authorities in the PRC during the effective term of the agreements. It has also undertaken to apply for the renewal of the registration of the trade mark not later than six months before the expiry date of such registration during the respective term of the agreements. Each of Xiamen Genben, Fuzhou Topmart, Fujian Topmart and Pinghe Topmart on the one hand and Supreme Bonus on the other hand has undertaken to the other that it will not, without the prior written consent of the other party, sub-licence the "Chaoda" trade mark or otherwise allow any third party to enjoy any rights or obligations under any of the trade mark licensing agreements, except that Supreme Bonus may assign its rights and obligations under such agreements if and at the same time as it sells the "Chaoda" trade mark. In addition, Supreme Bonus has undertaken to each of Xiamen Genben, Fuzhou Topmart and Fujian Topmart that it will not manufacture or sell any type of PGRs other than the sale of the Group's PGRs during the term of the trade mark licensing agreement and it has also undertaken to Pinghe Topmart that it will not engage in any business relating to agricultural resources products other than the Group's PGRs, fertilisers sold under the "Chaoda" trade mark or any other products permitted by Pinghe Topmart.

RESEARCH AND DEVELOPMENT

The Group has a research and development team comprising 11 staff members, of whom one has a doctorate degree in agricultural science, two have masters degrees (one in biology and the other agro-chemistry) and eight have bachelor degrees in either agricultural science or biochemistry. All of them have previous work experience with commercial or government research organisations. The research and development team is mainly responsible for research, analysis and development of new products, inspection and testing during production, and preparation of specific catalysts required in the production process. For the three years ended 30th June, 2001, the Group's expenditures on research and development activities amounted to approximately HK\$1,108,000, HK\$7,780,000 and HK\$11,285,000, respectively, representing approximately 5.3%, 9.0% and 6.0% of the Group's respective turnover.

The most important part of the Group's production technology relates to the production of DCPTA, the base chemical from which specific purpose PGRs for different agricultural produce are produced by the addition of different combinations of polymerides and other raw materials together with variations at different stages of the production process.

The Group frequently cooperates with science and academic institutions on the research and development of new products. In its cooperation with these institutions, the Group will only make available to them the DCPTA in its processed form so that the technology related to the production of DCPTA will not become available to them. The research work carried out by these institutions focuses on the development of specific purpose PGRs for different agricultural produce. These cooperation arrangements enable the Group to undertake the development of new products in a cost effective manner. They also enable the Group to tap the knowhow of the science or academic institutions with whom the Group cooperates. The Group does not have any profit sharing arrangement with such institutions and only pays fees to such institutions as invoiced. It will also enter into an agreement with each such institution which will provide for, among other things, the Group to retain all intellectual property rights arising out of the research and such institution to maintain confidentiality in respect of all research findings.

The research and development of PGRs for corn and oil seeds jointly conducted by the Group and the Crop Biochemical Control Research Centre of the China Agricultural University is expected to be completed by the end of 2001 and to be put into production in mid-2002. The research and development of PGR for cotton conducted by the Crop Biochemical Control Research Centre of the China Agricultural University is expected to be completed by the end of 2003.

The research and development of PGR for tea jointly conducted by the Group and the Tea Research Centre of the China Agricultural School is expected to be completed by mid-2003. The research and development of PGRs for five species of fruits, namely, lychee/longan, water melon, orange/mandarin, pomelo and banana, jointly conducted by the Group, the Tropical Crops Research Institute of Fujian Province and the Agricultural Bureau of Zhangzhou are progressing rapidly, after which they will be put into production in the near future.

According to the agreements with various science and academic institutes, the intellectual property rights arising from the research of the PGRs currently under research and development in cooperation with those science and academic institutes will be retained by the Group and it is expected that the Group will carry out the production of those new types of PGRs on its own to safeguard the confidentiality of proprietary information of the production of such PGRs. The Group will pay for the research fees and apart from these, the Group does not pay any other fees to such institutes.

Apart from PGRs, the Group also jointly developed a biological pesticide with the Biotechnology Research Centre of the Fujian Agricultural School. The Group has an exclusive right to negotiate with the Biotechnology Research Centre of the Fujian Agricultural School for the formation of a joint venture for the production of a type of biological pesticide jointly developed by the Group and the Biotechnology Research Centre in consideration of the payment of a deposit of approximately HK\$16,975,000 to the Biotechnology Research Centre made by four instalments during the period from September 2000 to February 2001. If a joint venture can be formed, the joint venture will be entitled to have the exclusive right to use the biological pesticide. If a joint venture cannot be formed before 31st May, 2002 due to the default of the Biotechnology Research Centre or other events beyond the control of both parties, the Biotechnology Research Centre has to refund, without interest, the deposit or if the Biotechnology Research Centre fails to refund the deposit before 30th June, 2002, it has to transfer to the Group the exclusive right to use the biological pesticide. If the Group enters into an agreement with the Biotechnology Research Centre to form a joint venture, the deposit will be retained by the Biotechnology Research Centre. The Directors consider that based on the investigation and assessment conducted by the Group prior to the signing of the agreement with the Biotechnology Research Centre, the terms of the agreement, including the arrangement relating to the deposit, are in the interests of the Group. In this respect, the Company will make an announcement for any material development in the formation of such joint venture and/or changes in the relevant arrangement relating to the deposit of approximately HK\$16,975,000.

INSURANCE

The Directors believe that the Group has maintained adequate insurance coverage for any damage to plant and machinery by accidents or natural disasters. With the exception of insurance for its employees in respect of death or personal injury at work, the Group does not maintain any third party liability insurance to cover claims in respect of personal injury or death. The Group also does not maintain any product liability insurance. The Group has not experienced any third party liability claim in relation to its products. The Group's DCPTA-based regulatory-type PGR and each specific purpose PGR developed from it have been subject to comprehensive research studies, testings and field experiments conducted both by the Group and by independent bodies. None of the Group's products has been shown by such studies, testings or experiments to have any harmful effect on human. To control its product liability risk, the Group places significant emphasis on quality control and continually monitors any possible harmful effect that its products may have.

CONNECTED TRANSACTIONS

During the year ended 30th June, 2001, the Group, in the ordinary course of its business, sold agricultural resources products to Fujian Jinxi or its associates in the aggregate amount of approximately RMB1,700,000. As Fujian Jinxi is a substantial shareholder of Pinghe Topmart, such sales will constitute connected transactions for the Company under the Listing Rules once the Shares are listed on the Stock Exchange. Pursuant to the Listing Rules, such transactions would normally require full disclosure and subject to the value of the transactions, prior approval by independent shareholders.

The Directors consider that disclosure and (if applicable) approval of them in full compliance with the Listing Rules would add additional administrative costs to the Company. The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements of Chapter 14 of the Listing Rules in relation to the sales of agricultural resources products by Pinghe Topmart to Fujian Jinxi or its associates (the “Transactions”) for the three financial years ending 30th June, 2004. The Company has applied to the Listing Division of the Stock Exchange for a conditional waiver to the Company in respect of the Transactions on each occasion they arise during the three financial years ending 30th June, 2004 subject to:

- (a) that the Transactions shall be:
 - (i) entered into by the Group in the ordinary and usual course of its business;
 - (ii) conducted either (A) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (iii) entered into either (A) in accordance with the terms of the agreements governing such Transactions or (B) (where there are no such agreements) on terms no less favourable than those available to or from independent third parties;
- (b) the aggregate amount of the Transactions for each financial year of the Company shall not exceed RMB7,000,000;
- (c) the independent non-executive Directors shall review the Transactions annually and confirm in the Company’s next annual report that these were conducted in the manner as stated in paragraphs (a) and (b) above;
- (d) the Company’s auditors shall review the Transactions annually and confirm in a letter to the Directors (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating whether:
 - (i) the Transactions have received the approval of the Board;

- (ii) the Transactions are in accordance with the pricing policies, if any, as stated in the Company's financial statements; and

- (iii) the Transactions have been entered into in accordance with the terms of the agreements, if any, together with a statement of the opinion of the independent non-executive Directors and the auditors of the Company referred to in paragraphs (c) and (d) above.

If any terms of the Transactions as mentioned above are altered or if the Group enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than as at the date of this document on transactions of the kind to which the Transactions belong including, without limitation, a requirement that such transactions be made conditional on approval by the independent shareholders of the Company, the Company must take immediate steps to ensure compliance with such requirements within a reasonable time.

Directors and management

The Board consists of five Directors (three executive Directors and two independent non-executive Directors). The executive Directors have extensive experience in the PGR industries. Brief details concerning each of the Directors are set out below.

Name	Age	Position
Mr. Wu	36	Chairman
Mr. Yang Zhuoya	36	Managing Director
Mr. Tung Fai	39	Executive Director
Ms. He Zhongpei	66	Independent Non-executive Director
Mr. Lam Ming Yung	37	Independent Non-executive Director

Executive Directors

Mr. Wu Shaoning, aged 36, is the Chairman of the Group. He graduated from the University of Xiamen with a bachelor degree in politics and economics. Thereafter, he attended the Hong Kong Macau Economics Study Programme at the University of Hong Kong for one year and obtained a masters degree in economics from the University of Xiamen. Mr. Wu has over ten years of experience in trading business and the agricultural chemicals industry in the PRC and was nominated as the director of the Professional Crop Chemical Control Committee of China in 1999. Mr. Wu is responsible for the overall management and operation of the Group, as well as its strategic planning and business development.

Mr. Yang Zhuoya, aged 36, is the Managing Director and responsible for research and development of the Group. He holds a doctorate degree in agricultural chemistry and plant nutrition and was nominated as the standing director of the Soil and Fertiliser Academy of Fujian Province for the year 2000. Mr. Yang joined the Group in 1998 and is primarily responsible for the Group's product research and development, as well as overseeing its production operations. Prior to joining the Group, Mr. Yang was a deputy professor of 廣東仲愷農業技術學院 in Guangdong Province, the PRC, engaged in teaching and research.

Mr. Tung Fai, aged 39, is an Executive Director. He holds a bachelor degree in economics from the Jiangxi Finance Institute in the PRC and joined the Group in 1998. Mr. Tung is primarily responsible for the Group's strategic planning and investment activities. Prior to joining the Group, Mr. Tung was a business consultant in respect of investment management and project financing for enterprises in the PRC.

Independent Non-executive Directors

Professor He Zhongpei, aged 66, is a Non-executive Director. She graduated from the Agronomy Department of China Agricultural University in 1957. She is presently a professor at the China Agricultural University, a member of the Agricultural Products Academic Committee, the vice president of the Professional Committee on Agricultural Products and Chemical Control of the

National Association for the Promotion of Agricultural Technology, as well as a member of the editorial board of various agricultural publications. Professor He is also the author of five books and has published over 100 theses both nationally and internationally. Professor He was nominated as an Outstanding Female Scientist in the 4th International Women Conference in 1995 and an assistant director of the Professional Crop Chemical Control Committee of China in 1999.

Mr. Lam Ming Yung, aged 37, is a Non-executive Director. He graduated from the School of Law of Shanghai Eastern Chinese College of Politics and Jurisprudence in 1986 and was awarded the degree of bachelor of law. Mr. Lam started practising law in 1987 in Fujian Province in the PRC, and moved to Hong Kong in mid-1993. He was registered as a foreign lawyer with the Hong Kong Law Society in 1995, and is presently in private practice with a Hong Kong solicitors firm.

Senior management

Tong Hing Wah, aged 31, is the chief financial officer and company secretary of the Company. He graduated from the Hong Kong Polytechnic University with a bachelor degree in accountancy. He is also an associate member of the Hong Kong Society of Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over eight years of experience in auditing, accounting and financial management. He joined the Group in 1999 and is primarily responsible for the Group's financial management and strategy and supervision of the Group's accounting and financial reporting procedures and regulatory compliance.

Chen Wen Ren, aged 29, is the production manager of the Group. He graduated from Beijing Chemical Engineering University with a professional certificate in chemical engineering and has over six years' experience in chemical engineering equipment design and technology development. He joined the Group in 2000.

Yeh Jing Ping, aged 50, is the finance manager of the Group. She graduated from Fuzhou University with a bachelor degree in commerce and is also a qualified accountant in the PRC. She has over 17 years' experience in finance and accounting. She was formerly a finance manager of Fuzhou Refrigerator Company Limited and a finance manager of Hua Yung Supermarket Group Limited before she joined the Group in June 1998.

Gu Xue Mei, aged 29, is the manager of the technology department of the Group. She graduated from Beijing Chemical Engineering University with a professional certificate in fine-chemical engineering and has over six years' experience in synthesizing and analysing chemical products. She began to assist Mr. Wu on the establishment of Xiamen Genben in February 1997.

The Group has entered into service contracts with Mr. Wu, Mr. Yang Zhuoya and certain other key technical and management personnel which have a fixed term expiring between 2007 and 2009 (subject to the Group's right of termination in certain circumstances). Each of them has undertaken to the Group not to divulge confidential information or to engage in competing business with the Group during the term of his service contract and in the case of Mr. Wu, for ten years, and in the case of the others, for three years after its expiry or termination.

Audit Committee

Ms. He Zhongpei and Mr. Lam Ming Yung are members of the Company's audit committee.

Employees

As at 30th June, 2001, the Group had a total of 291 full-time employees in Hong Kong and the PRC as detailed below:

	Hong Kong	PRC	Total
Management and administration	5	27	32
Sales and marketing	—	43	43
Purchasing	—	4	4
Finance and accounting	3	13	16
Research and development	—	11	11
Production	<u>—</u>	<u>185</u>	<u>185</u>
Total	<u>8</u>	<u>283</u>	<u>291</u>

The remuneration payable to the employees includes a basic salary, allowances and discretionary bonuses. The Group currently has the Share Option Scheme as summarised in Appendix IV. The Group provides on-the-job training to employees from time to time and the Group's technical personnel receives training from research institutions from time to time.

During the three years ended 30th June, 2001, the Group did not experience any material disruption in its operations due to labour disputes. The Directors believe that the Group maintains a good relationship with its employees.

The Group provides a mandatory provident scheme for its employees in Hong Kong. Under such scheme, both the employer and the employees have to contribute an amount equal to 5% of certain income of the employees including wages, salaries, leave pay, fees, commission, bonuses, gratuities allowances which are expressed in monetary terms (excluding housing allowance) (the "Relevant Income"). The minimum and maximum levels of monthly Relevant Income are HK\$4,000 and HK\$20,000 respectively. An employee earning less than HK\$4,000 is not required to contribute but may elect to do so. However, the employer must still contribute 5% of the employee's Relevant Income even if it is below HK\$4,000. Contributions from the employer and an employee are 100% vested in the employees as soon as they are paid to the mandatory provident scheme but all benefits derived from the mandatory contributions must be preserved until the employees reaches the retirement age of 65 (subject to a few exceptions including early retirement between age 60 and 64, death, total capacity and permanent departure from Hong Kong). The employer's contribution to the mandatory provident fund scheme can be used to offset any long service payments or severance payments payable.

As required by the relevant rules and regulations in the PRC, the Group's subsidiaries in the PRC contribute approximately 21% of the basic salary of their employees in the PRC to a state-sponsored retirement plan for the employees. The Group's subsidiaries have no further obligation for the actual pension payments or post-retirements benefits beyond such contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

Share Option Scheme

The Group has adopted the Share Option Scheme whereby full-time employees of the Group (including executive Directors) may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in Appendix IV. In connection with the Introduction and in order to comply with the Listing Rules, the Group will, subject to the approval of the shareholders of the Company, adopt the Proposed Share Option Scheme to replace the Share Option Scheme. The principal terms of the Proposed Share Option Scheme are summarised in Appendix IV.

SUBSTANTIAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of Shares as of the Latest Practicable Date by all persons who are entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company and are substantial shareholders of the Company as defined in the Listing Rules.

Name	Number of Shares owned	Percentage of total issued share capital
Mr. Wu	140,000,000	51.77%
Mr. Tung Fai	28,000,000	10.35%

The Company is not aware of any arrangement which may at a subsequent date result in a change in control of the Company.

SHARE CAPITAL

Number of Shares	<i>HK\$'000</i>
<i>Authorised</i>	
500,000,000	50,000
<i>In issue:</i>	
270,434,782	27,043

Notes:

1. Assumptions

It does not take into account any Shares which may fall to be issued upon the exercise of any option granted under the Share Option Scheme, the Proposed Share Option Scheme or under the general mandate (see below), or which may be bought back by the Company (see below).

2. Share Option Schemes

The Company has adopted the Share Option Scheme. A summary of the principal terms of the scheme is set out under the section headed “Statutory and General Information — Share Option Scheme” in Appendix IV to this document. In connection with the Introduction and in order to comply with the provisions of the Listing Rules, the Group will, subject to the approval of the shareholders of the Company, adopt the Proposed Share Option Scheme to replace the Share Option Scheme. A summary of the principal terms of the Proposed Share Option Scheme is set out under “Statutory and General Information — Proposed Share Option Scheme” in Appendix IV to this document.

3. General mandate to issue Shares

The Directors have been granted an unconditional general mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- (a) 20% of the total nominal amount of the share capital of the Company issued and to be issued (as set out in the above table); and
- (b) the total nominal amount of the share capital of the Company (if any) bought back by the Company under the general mandate to repurchase Shares.

This mandate does not apply to the situation where the Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or the issue of Shares on the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (a) at the end of the Company’s next annual general meeting; or
- (b) at the end of the period within which the Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of its shareholders in general meeting,

whichever is the earliest.

SHARE CAPITAL

4. General mandate to repurchase Shares

The Directors have been granted an unconditional general mandate to exercise all the powers of the Company to buy back Shares with a total nominal value of not more than 10% of the total nominal amount of the issued share capital of the Company.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules.

This mandate will expire:

- (a) at the end of the Company's next annual general meeting; or
- (b) at the end of the period within which the Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of its shareholders in general meeting,

whichever is the earliest.

5. Convertible Securities

As at the Latest Practicable Date, the Company has not issued any securities, debentures or loan notes convertible into shares in the Company.

INDEBTEDNESS

Borrowings

As at the close of business on 31st October, 2001, being the latest practicable date prior to the printing of this document for the purpose of this indebtedness statement, the Group had short-term bank loans of approximately HK\$47,570,000, all of which were repaid in November 2001.

Collaterals

As at the close of business on 31st October, 2001, approximately HK\$570,000 of the Group's bank borrowings was secured by pledged bank deposits of the Group amounting to approximately HK\$570,000.

Contingent liabilities

As at the close of business on 31st October, 2001, the Group had no material contingent liabilities.

Disclaimers

Save as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the close of business day on 31st October, 2001.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

The Group generally finances its operations with internally generated cashflow and bank borrowings for its capital expenditures and other capital requirements. The net proceeds of approximately HK\$78.2 million from the Share Offer in November 1999, after deducting related

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expenses, were applied towards various developments of the Group since the listing of the Shares on GEM in November 1999 to implement the business objectives of the Group as described in the Prospectus as follows:

December 1999 to June 2001	Actual Application <i>(HK\$ million)</i>
Acquisition of land and construction of production facilities	17.9
Setting up four new PGR production lines	21.9
Research and development expenses for four new types of PGRs (flowers, edible fungi, corn and oil seeds)	7.2
Advertising and promotions for new products and expansion of sales force	<u>12.8</u>
	<u><u>59.8</u></u>

The remaining balance of the proceeds were deposited at licensed banks in Hong Kong and in the PRC as preparation for future use as set out in the business development plan in the Prospectus. The Directors presently do not envisage any circumstances which may lead to a material alteration as to the proposed use of the net proceeds.

Borrowings and banking facilities

As at 31st October, 2001, the Group had aggregate short-term bank facilities of approximately HK\$47,570,000 and the entire amount was utilised. Approximately HK\$570,000 of the facilities are secured by pledged bank deposits of the Group of the same amount, while the remaining balance of the facilities is unsecured. In addition, the Group has agreed to comply with certain restrictive financial covenants imposed by a bank.

Commitments

As at 31st October, 2001, the Group had outstanding contracted capital commitments of approximately HK\$9,421,000 in respect of acquisition of fixed assets and research and development expenditures, as well as operating lease commitments of approximately HK\$2,567,000.

Net current assets

As at 31st October, 2001, the Group had net current assets of approximately HK\$144.5 million. Current assets comprised pledged bank deposits of approximately HK\$0.6 million, other cash and bank deposits of approximately HK\$120.4 million, inventories of approximately HK\$5.1 million, prepayments, deposits and other current assets of approximately HK\$72.1 million and accounts receivable of approximately HK\$16.2 million. Current liabilities comprised short-term bank borrowings of approximately HK\$47.6 million, accounts payable of approximately HK\$1.5 million, accruals and other payables of approximately HK\$18.9 million and taxation payable of approximately HK\$1.9 million.

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Working capital

The Directors are of the opinion that after taking into account of the existing financial resources available to the Group and the expected internally generated funds, the Group has sufficient working capital for its present requirement.

AUDITED TRADING RECORD

The consolidated audited results of the Group for each of the three years ended 30th June, 2001 prepared on the basis that the existing Group structure was in place throughout the relevant periods and extracted from the accountants' report, the text of which is set out in Appendix I to this document, are summarised below:

	<i>Note</i>	Years ended 30th June,		
		1999	2000	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(1)	21,065	86,732	187,161
Cost of sales		<u>(5,961)</u>	<u>(18,958)</u>	<u>(60,250)</u>
Gross profit		15,104	67,774	126,911
Selling and distribution expenses		(3,259)	(18,545)	(41,437)
General and administrative expenses		<u>(2,581)</u>	<u>(17,128)</u>	<u>(22,176)</u>
Profit from operations		9,264	32,101	63,298
Interest income		2	2,768	5,108
Finance costs		<u>—</u>	<u>(1,074)</u>	<u>(7,901)</u>
Profit before taxation		9,266	33,795	60,505
Taxation		<u>(286)</u>	<u>(1,640)</u>	<u>—</u>
Profit after taxation but before minority interests		8,980	32,155	60,505
Minority interests		<u>(3,458)</u>	<u>(2,147)</u>	<u>94</u>
Profit attributable to shareholders		<u>5,522</u>	<u>30,008</u>	<u>60,599</u>
Dividend		<u>4,000</u>	<u>—</u>	<u>—</u>
Earnings per Share — Basic (cents)	(2)	<u>3.2</u>	<u>13.6</u>	<u>24.2</u>

Notes:

1. Turnover represents the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.
2. The calculations of the basic earnings per Share for each of the three years ended 30th June, 2001 are based on the consolidated profit attributable to shareholders of approximately HK\$5,522,000, HK\$30,008,000 and HK\$60,599,000 during the years and the respective weighted average of approximately 175,000,000, 219,877,000 and 250,000,000 ordinary shares in issue during the years.

No diluted earnings per Share is presented as the then outstanding unlisted warrants were anti-dilutive.

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Management's discussion and analysis of financial condition and results of operation (based on the audited trading record)

Overview

Turnover

Prior to March 2001, the Group's turnover was entirely derived from the sales of regulatory-type PGRs. The sales of other agricultural resources products such as pesticides and fertilisers also contribute to the Group's turnover since March 2001 as a result of the setting up of the agricultural resources supermarket stores by the Group in Fujian Province in the PRC, representing approximately 12.5% of the Group's turnover for the year ended 30th June, 2001.

Cost of sales

Cost of sales for the Group's manufacturing and sales of PGRs primarily consists of the costs of raw materials, other direct costs such as labour costs and electricity expenses, as well as production overheads.

Cost of sales for the Group's trading of agricultural resources products mainly consists of the costs of purchase of the agricultural resources products for resale.

Operating expenses

The Group's operating expenses comprise selling and distribution expenses, and general and administrative expenses.

Selling and distribution expenses mainly include advertising and promotion expenses and commissions paid to salesmen and distributors.

General and administrative expenses mainly include research and development costs, salaries and license fees for using the "Chaoda" trade mark.

Taxation

The Group was not subject to Hong Kong profits tax as the Group did not generate any assessable profits in Hong Kong for each of the three years ended 30th June, 2001.

The Company is exempted from taxation in the Cayman Islands until 2019.

According to PRC tax laws and regulations, a foreign investment enterprise engaging in manufacturing business which has an operating term of over 10 years will normally enjoy full exemption from the PRC enterprise income tax in the first two years in which such foreign investment enterprise records assessable profits and a 50% tax exemption in the three years thereafter. All foreign investment enterprises established in the economic development zone of Fujian Province are subject

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to an enterprise income tax at the rate of either 15% or 24%, depending on where such enterprises are located at within the economic development zone of Fujian Province, or other applicable rates. Otherwise, business enterprises in the PRC are in general subject to an enterprise income tax at a rate of 33%.

Three of the Group's principal subsidiaries in the PRC, namely, Xiamen Genben, Fuzhou Topmart and Fujian Topmart, are foreign investment enterprises and have been entitled to the tax concessions mentioned above during the three years ended 30th June, 2001.

Xiamen Genben, established and operated in Xiamen, Fujian Province, a special economic region of the PRC, is subject to the PRC enterprise income tax at a rate of 15%. However, it is exempted from the enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. Xiamen Genben was exempted from PRC enterprise income tax up to 31st December, 1998 and it is subject to the PRC enterprise income tax at a rate of 7.5% from 1st January, 1999 to 31st December, 2001.

Fuzhou Topmart and Fujian Topmart, both established and operated in Fuzhou, Fujian Province, the PRC, are subject to the PRC enterprise income tax at a rate of 24%. However, they are exempted from the enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. Fuzhou Topmart was exempted from the PRC enterprise income tax up to 31st December, 2000 and it is subject to the PRC enterprise income tax at a rate of 12% from 1st January, 2001 to 31st December, 2003. Fujian Topmart was exempted from the PRC enterprise income tax up to 31st December, 2002 and it is subject to the PRC enterprise income tax at a rate of 12% from 1st January, 2003 to 31st December, 2005.

Pinghe Topmart, established and operated in Zhangzhou, Fujian Province, is subject to the PRC enterprise income tax at a rate of 33%.

Xiamen Genben generated taxable profits for the PRC enterprise income tax purpose for the two years ended 30th June, 2000. During such period, Fuzhou Topmart was exempted from the PRC enterprise income tax and all other members of the Group then existing had no taxable profits. Accordingly, the taxation for each of the years ended 30th June, 1999 and 2000 was solely resulted from the operation of Xiamen Genben. Starting from 2001, most of the production of PGRs of Xiamen Genben and Fuzhou Topmart was transferred to Fujian Topmart as a part of the consolidation of the Group's production operation. For the year ended 30th June, 2001, Xiamen Genben and Fuzhou Topmart, as well as other companies in the Group except for Fujian Topmart, recorded losses before taxation. As Fujian Topmart was exempted from the PRC enterprise income tax during such period, the Group recorded no taxation for the year ended 30th June, 2001.

In addition, the Group's products are classified as agricultural pesticides and fertilisers which are exempted from the value-added tax under PRC tax regulations.

Year ended 30th June, 1999

Since the Group's PGR product was first launched in 1997, its market demand kept increasing. To meet with the increasing demand, the Group increased its annual production by the production line

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operated by Xiamen Genben from 40 tonnes previously to 180 tonnes in July 1998. In addition, in July 1998, the Group replaced its general purpose PGR with two new specific purpose regulatory-type PGRs for vegetables and for fruits. These new products were well-received by the Group's customers. The Group sold approximately 180 tonnes of PGRs and recorded a turnover of approximately HK\$21.1 million for the year ended 30th June, 1999. The Group's gross profit was approximately HK\$15.1 million, representing a gross profit margin of approximately 71.7%, while the net profit before taxation was approximately HK\$9.3 million, representing a net profit margin before taxation of 44.0%.

Year ended 30th June, 2000

With the establishment of Fuzhou Topmart, a new production line with a maximum annual production capacity of 280 tonnes of PGRs was added in September 1999, and the Group's total maximum annual production capacity was then increased to 560 tonnes of PGRs with its then existing two production lines. With the successful development of the new PGRs for rice and tobacco, as well as the growth in the demands for the existing PGRs for vegetables and fruits, the Group added four production lines to commercial production upon the completion of the construction of the Group's production plant in Huian Economic Development District, Fujian Province in May 2000. The maximum annual production capacity of the Group was then increased to 1,680 tonnes of PGRs. As a result of the expansion of the production capacity with a growth of the demand for the Group's products, the Group sold 746 tonnes of PGRs during the year ended 30th June, 2000. The Group's turnover amounted to approximately HK\$86.7 million, representing an increase of approximately 3.1 times from the previous year.

The Group added five production lines during the year ended 30th June, 2000 (one being added in September 1999 and four being added in May 2000). Accordingly, the Group managed to take further advantage of the economy of scale achieved by the expansion of production of PGRs, as compared to the situation for the year ended 30th June, 1999 with only one production line in operation. As a result, the fixed costs for the production of PGRs, such as depreciation and amortisation of development expenditures capitalised, became a smaller portion of the total production costs as the production volume increased.

Accordingly, the Group achieved a gross profit of approximately HK\$67.8 million with an increase of approximately 3.5 times from the previous year, improving its gross profit margin to approximately 78.1%.

Meanwhile, the Group achieved a net profit before taxation of approximately HK\$33.8 million with an increase of approximately 2.6 times from the previous year. However, due to the significant increase in advertising and promotion expenses by approximately HK\$5,770,000 as compared to the year ended 30th June, 1999 which was resulted from the increased scale of marketing activities to promote new and existing types of PGRs produced by the Group, as well as the significant increase in research and development expenses by approximately HK\$3,495,000 as compared to the year ended 30th June, 1999 for the product development of other new types of PGRs, the Group's net profit margin before taxation for the year ended 30th June, 2000 was reduced to approximately 39.0%.

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Year ended 30th June, 2001

The addition of the four production lines in May 2000 made contribution to the Group's operation in the year ended 30th June, 2001. In addition, the research and development of the PGRs for flowers and fungi were completed at the end of 2000 and their commercial production commenced in June 2001. As a result, the Group added two new production lines in the Group's production plant in Huian for PGRs for flowers and fungi and the Group's maximum annual production capacity was further increased to 2,240 tonnes of PGRs. With the Group's expansion of the variety of its PGR products and the demands for the PGR products remaining strong, the Group increased its sales of PGR products to 1,382 tonnes for the year ended 30th June, 2001 and the corresponding turnover derived from the sale of PGRs was approximately HK\$163.8 million. With a view to diversifying the business of the Group, Pinghe Topmart started setting up agricultural resources supermarket stores in Fujian Province since March 2001 and 35 agricultural resources supermarket stores were set up by June 2001. Subsequent to 30th June, 2001, the Group increased the number of such stores to 44. The trading of pesticides, fertilisers and other agricultural resources products as a result of the launch of the operation of agricultural resources supermarket stores added a turnover of approximately HK\$23.3 million. The Group's turnover increased by approximately 1.2 times to approximately HK\$187.1 million as compared to the previous year.

As the trading of pesticides, fertilisers and other agricultural resources products through the supermarket stores set up by the Group was still at the initial stage of development for the four months from March to June 2001, with a gross margin of approximately 6.8% only due to its trading nature, it contributed a relatively small amount of gross profit of approximately HK\$1.6 million. Accordingly, the overall gross profit margin of the Group decreased to approximately 67.8% as affected by the relatively low gross margin of approximately 6.8% of the trading business of agricultural resources products. In addition, considerable amount of preliminary expenses was spent, in particular for advertising and stores decoration, during the early establishment stage, resulting in operating expenses of approximately HK\$3.2 million and a loss from operations of approximately HK\$1.6 million for the supermarket stores operation. As such, the overall net profit margin before taxation was reduced to approximately 32.3%.

Nevertheless, the Group was capable of achieving a remarkable overall growth in gross profit and net profit before taxation as a result of the growth in the PGR production operation. The Group further took advantage of economy of scale due to the expanding PGR production operation. Meanwhile, being the sole domestic producer of regulatory-type PGRs, the Group managed to maintain a high gross profit margin of approximately 76.5% for the PGR production operation with the continuing acceptance of its PGR products by its customers. The gross profit of PGR production operation amounted to approximately HK\$125.3 million, achieving an increase of approximately 84.9% from the previous year. Accordingly, as compared to the previous year, the Group's overall gross profit increased by approximately 0.9 times to approximately HK\$126.9 million, while the overall net profit before taxation increased by approximately 0.8 times to approximately HK\$60.5 million.

PROPERTIES

Property interests rented by the Group in Hong Kong

The Group has leased properties in Hong Kong as its head office, Director's quarter and staff quarter. They are leased from independent third parties not connected with the Directors, chief executive or substantial Shareholders of the Company or its subsidiaries or their respective associates.

Property interests held by the Group in the PRC

The Group has production plant, office and research buildings in Huian Economic Development District, Fujian Province, the PRC, occupying a total gross floor area of approximately 6,860 sq. m. The Group applied for the relevant Building Ownership Certificates in March 2001 for such buildings. However the relevant Building Ownership Certificates have not been obtained. The Directors expect that the application will be completed before April 2002 and a sum of approximately RMB300,000 will be payable for such application. Despite the lack of the relevant Building Ownership Certificates, these buildings have been valued at approximately HK\$7,800,000 and are included in the summary of values and valuation certificate set out in Appendix II to this document, and have been stated at historical cost less accumulated depreciation of approximately HK\$7,759,000 in the accountants' report set out in Appendix I to this document.

The Group has leased properties in the PRC as its office, research centre, staff quarters and agricultural resources supermarket stores.

The interests of the Group in these properties as at 31st October, 2001 have been valued by Sallmanns (Far East) Limited, an independent valuer, at approximately HK\$18,008,000. The valuation report prepared by Sallmanns (Far East) Limited is included as one of the documents available for inspection as stated in "Documents Available for Inspection" in Appendix IV. The text of the valuation report is set out in Appendix II to this document.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Dividend policy

For the year ended 30th June, 1999, a total amount of dividend of HK\$4,000,000 was declared and paid by Loyal Faith to its then shareholders. The dividend payment was financed by the internal financial resources of the Group. Save as disclosed above, no dividend was declared by the Company for each of the three years ended 30th June, 2001.

FINANCIAL INFORMATION

The Directors expect that, in future, interim and final dividend will be paid in or around April of each year and December following the end of each financial year, respectively, and that the interim dividend will normally represent approximately one-third of the expected total dividend for the full year. The declaration of, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Group's earnings, financial condition, cash requirements and availability, and other relevant factors. The balance of the earnings will be used to fund the Group's continued growth and the expansion of its businesses.

Distributable reserves

Under the Companies Law, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, unless immediately following the date on which the distributions or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at 30th June, 2001, the Company's reserves available for distribution to shareholders amounted to approximately HK\$62,356,000 computed in accordance with the Companies Law and the Articles of Association. This includes the Company's share premium of approximately HK\$53,424,000 and contributed surplus of approximately HK\$11,527,000, less accumulated deficit of approximately HK\$2,595,000.

FINANCIAL INFORMATION

FINANCIAL INFORMATION OF THE GROUP FOR THE THREE MONTHS ENDED 30TH SEPTEMBER, 2001

The following is the unaudited consolidated results of the Group for the three months ended 30th September, 2001, together with comparative figures for the corresponding period in 2000, which is extracted from the first quarter report of the year ending 30th June, 2002 of the Company dated 14th November, 2001:

		For the three months ended 30th September,	
		2001	2000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	a	61,765	37,709
Cost of sales		<u>(28,036)</u>	<u>(8,580)</u>
Gross profit		33,729	29,129
Selling and distribution expenses		(10,004)	(8,124)
General and administrative expenses		<u>(4,809)</u>	<u>(5,291)</u>
Profit from operations		18,916	15,714
Interest income		912	1,206
Finance costs		<u>(2,329)</u>	<u>(840)</u>
Profit before taxation		17,499	16,080
Taxation	b	<u>—</u>	<u>(250)</u>
Profit attributable to shareholders		<u><u>17,499</u></u>	<u><u>15,830</u></u>
Earnings per share	c		
— Basic		<u><u>HK7.0 cents</u></u>	<u><u>HK6.3 cents</u></u>
— Diluted		<u><u>HK7.0 cents</u></u>	<u><u>HK6.3 cents</u></u>

Notes:

- a. Turnover represents the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.
- b. The Company is exempted from taxation in the Cayman Islands until 2019. No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong. No provision for the PRC enterprise income tax was made as the group companies in the PRC were either in tax loss position or exempted from enterprise income tax during the three months ended 30th September, 2001 (2000: enterprise income tax of approximately HK\$250,000 was provided).

FINANCIAL INFORMATION

c. Earnings per share

The calculations of basic earnings per share for the three months ended 30th September, 2001 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$17,499,000 (2000: HK\$15,830,000) and the weighted average of 250,000,000 shares in issue during the three months ended 30th September, 2001 (2000: 250,000,000 shares).

The calculation of diluted earnings per share for the three months ended 30th September, 2001 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$17,499,000 (2000: HK\$15,830,000) and the weighted average number of approximately 250,755,000 shares (2000: 250,000,000 shares) in issue, after adjusting for the effect of all dilutive potential shares. The effect of the dilutive potential shares resulting from the exercise of the outstanding warrants on the average number of shares in issue during the period was approximately 755,000 shares (2000: Nil), which were deemed to have been issued at no consideration as if all the outstanding warrants had been exercised on the date when the warrants were granted.

d. Reserves

Movements of reserves during the three months ended 30th September, 2001 are summarised as follows:

	Three months ended 30th September, 2001					Three months ended 30th September, 2000	
	Share premium	Statutory reserves	Capital reserve	Cumulative translation adjustments	Retained earnings	Total	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Beginning of period	53,424	8,006	1,188	477	58,544	121,639	74,037
Profit attributable to shareholders	—	—	—	—	17,499	17,499	15,830
End of period	<u>53,424</u>	<u>8,006</u>	<u>1,188</u>	<u>477</u>	<u>76,043</u>	<u>139,138</u>	<u>89,867</u>

For further information relating to the Group's business in respect of the three months ended 30th September, 2001, please refer to the first quarter report of the year ending 30th June, 2002 of the Company dated 14th November, 2001.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the consolidated net assets of the Group as at 30th June, 2001 as set out in the Accountants' Report in Appendix I to this document, adjusted as shown below:

	<i>HK\$'000</i>
Audited net assets of the Group as at 30th June, 2001	146,639
Less: development expenditures	<u>(7,600)</u>
	139,039
Consolidated profit of the Group as shown in the unaudited management accounts for the four months ended 31st October, 2001, excluding amortisation of development expenditures of approximately HK\$623,000	26,480
Proceeds from warrants exercised (<i>Note 1</i>)	28,200
Surplus arising on revaluation as at 31st October, 2001 of the Group's interests in land (<i>Note 2</i>)	<u>2,046</u>
Adjusted net tangible assets	<u><u>195,765</u></u>
Adjusted net tangible asset value per Share (<i>Note 3</i>)	<u><u>HK\$0.724</u></u>

Notes:

1. On 31st October, 2001, certain of the unlisted warrants of the Company carrying subscription rights for Shares were exercised to subscribe for 20,434,782 Shares at a subscription price of HK\$1.38 per share, with the total proceeds amounting to approximately HK\$28,200,000.
2. Pursuant to the revaluation of the Group's interests in land (see Appendix II to this document), revaluation surplus of approximately HK\$2,046,000 arose. Such a revaluation surplus will not be recorded in the Group's financial statements as the Group accounts for its interests in land at cost.
3. It is based on the 270,434,782 Shares in issue upon the Introduction, but taking no account of any Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them to allot and issue Shares, or Shares which may be repurchased by the Company.

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

The Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Company or its subsidiaries since 30th June, 2001 (being the date to which the latest audited financial statements of the Group were made up).

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

The Directors confirm that as at the Latest Practicable Date, the Directors were not aware of any circumstances which would give rise to the disclosure requirements under Practice Note 19 of the Listing Rules.

FUTURE PLANS

FUTURE PLANS

The Directors believe that the competition in the PGR market and the agricultural resources products market in the PRC will remain intense in the future. The Group plans to:

- complete the development of two new PGRs, one for corn and the other for oil seeds, and to establish two more new production lines for the production of these new products, with commercial production expecting to commence in mid-2002;
- build upon the success of its specific purpose PGRs to further develop new specific purpose PGRs for a more diversified range of agricultural produce to maintain its position as the leading producer of regulatory-type PGRs in the PRC;
- carry out research and development in conjunction with research institutes for organic agricultural resources products other than PGRs and explore the commercial application of such products, e.g. biological pesticide; and
- further develop the Group into a vertically integrated provider of agricultural resources products by establishing agricultural resources supermarket stores in selected regions in the PRC.

In relation to the exploration of the commercial application of organic agricultural resources products other than PGRs, the Group has an exclusive right to negotiate with the Biotechnology Research Centre of the Fujian Agricultural School for the formation of a joint venture for the production of a type of biological pesticide jointly developed by the Group and the Biotechnology Research Centre in consideration of the payment of a deposit of approximately HK\$16,975,000 to the Biotechnology Research Centre made by four instalments during the period from September 2000 to February 2001. If a joint venture can be formed, the joint venture will be entitled to have the exclusive right to use the biological pesticide. If a joint venture cannot be formed before 31st May, 2002 due to the default of the Biotechnology Research Centre or other events beyond the control of both parties, the Biotechnology Research Centre has to refund, without interest, the deposit or if the Biotechnology Research Centre fails to refund the deposit before 30th June, 2002, it has to transfer to the Group the exclusive right to use the biological pesticide. If the Group enters into an agreement with the Biotechnology Research Centre to form a joint venture, the deposit will be retained by the Biotechnology Research Centre. The Directors consider that based on the investigation and assessment conducted by the Group prior to the signing of the agreement with the Biotechnology Research Centre, the terms of the agreement, including the arrangement relating to the deposit, are in the interests of the Group. In this respect, the Company will make an announcement for any material development in the formation of such joint venture and/or changes in the relevant arrangement relating to the deposit of approximately HK\$16,975,000.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the independent reporting accountants, Arthur Andersen & Co, Certified Public Accountants, Hong Kong, and Charles Chan, Ip & Fung CPA Ltd., Certified Public Accountants, Hong Kong.

**ANDERSEN****Arthur Andersen & Co**

21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

**CCIF****Charles Chan, Ip & Fung CPA Ltd.**

37th Floor Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

14th December, 2001

The Directors
China Agrotech Holdings Limited
ICEA Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to China Agrotech Holdings Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group”) for inclusion in the introduction document of the Company dated 14th December, 2001 (“the Introduction Document”).

We have audited the consolidated financial statements of the Group for the years ended 30th June, 1999, 2000 and 2001, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants. We have examined the audited consolidated financial statements of the Group for the years ended 30th June, 1999, 2000 and 2001, in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.

The consolidated financial statements of the Group as at and for the years ended 30th June, 1999, 2000 and 2001 set out in this report, have been prepared on the basis described in Note 1 to the consolidated financial statements set out in Section I below.

The directors of the respective group companies are responsible for preparing financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are also responsible for the consolidated financial statements of the Group as at and for the years ended 30th June, 1999, 2000 and 2001. It is our responsibility to form an independent opinion on the consolidated financial statements of the Group.

In our opinion, the consolidated financial statements of the Group give, for the purpose of this report, a true and fair view of the consolidated results of operations and cash flows of the Group for the years ended 30th June, 1999, 2000 and 2001, and of the consolidated financial position of the Group as at 30th June, 1999, 2000 and 2001.

I. CONSOLIDATED FINANCIAL STATEMENTS

The following are consolidated financial statements of the Group as at and for the years ended 30th June, 1999, 2000 and 2001, prepared on the basis set out in Note 1 below:

Consolidated income statements

	<i>Note</i>	Years ended 30th June,		
		1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	5	21,065	86,732	187,161
Cost of sales		<u>(5,961)</u>	<u>(18,958)</u>	<u>(60,250)</u>
Gross profit		15,104	67,774	126,911
Selling and distribution expenses		(3,259)	(18,545)	(41,437)
General and administrative expenses		<u>(2,581)</u>	<u>(17,128)</u>	<u>(22,176)</u>
Profit from operations		9,264	32,101	63,298
Interest income	5	2	2,768	5,108
Finance costs		<u>—</u>	<u>(1,074)</u>	<u>(7,901)</u>
Profit before taxation	6	9,266	33,795	60,505
Taxation	8	<u>(286)</u>	<u>(1,640)</u>	<u>—</u>
Profit after taxation but before minority interests		8,980	32,155	60,505
Minority interests		<u>(3,458)</u>	<u>(2,147)</u>	<u>94</u>
Profit attributable to shareholders		5,522	30,008	60,599
Retained profit, beginning of year		692	1,921	18,861
Transfer to statutory reserves	27	(293)	—	(7,713)
Elimination of goodwill	28.b	—	(13,068)	(13,203)
Dividend	9	<u>(4,000)</u>	<u>—</u>	<u>—</u>
Retained profit, end of year		<u>1,921</u>	<u>18,861</u>	<u>58,544</u>
Earnings per share - Basic	10	<u>HK3.2 cents</u>	<u>HK13.6 cents</u>	<u>HK24.2 cents</u>

Consolidated statements of recognised gains and losses

	<i>Note</i>	Years ended 30th June,		
		1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net gains not recognised in the consolidated income statements				
— Translation adjustments	27	13	255	206
Profit attributable to shareholders		<u>5,522</u>	<u>30,008</u>	<u>60,599</u>
Total recognised gains		5,535	30,263	60,805
Elimination of goodwill arising from acquisition of subsidiaries	28.b	<u>—</u>	<u>(13,068)</u>	<u>(13,203)</u>
		<u>5,535</u>	<u>17,195</u>	<u>47,602</u>

Consolidated balance sheets

		30th June,		
		1999	2000	2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	11	1,544	38,298	70,686
Development expenditures	12	1,519	4,204	7,600
Investment deposit	13	<u>—</u>	<u>—</u>	<u>16,975</u>
Total non-current assets		<u>3,063</u>	<u>42,502</u>	<u>95,261</u>
CURRENT ASSETS				
Inventories	14	307	1,837	5,221
Prepayments, deposits and other current assets	15	270	3,268	4,971
Accounts receivable	16	848	9,759	17,466
Loan receivable	17	—	8,000	—
Due from directors	18	2,558	100	—
Due from a related company	19	125	—	—
Pledged bank deposits	20 & 32	—	41,021	1,593
Other cash and bank deposits	20	<u>169</u>	<u>56,744</u>	<u>96,658</u>
Total current assets		<u>4,277</u>	<u>120,729</u>	<u>125,909</u>
CURRENT LIABILITIES				
Short-term bank borrowings	21 & 32	—	(46,988)	(48,593)
Accounts payable	22	—	(4,635)	(4,057)
Accruals and other payables	23	(1,306)	(8,713)	(18,023)
Taxation payable		<u>(286)</u>	<u>(3,858)</u>	<u>(3,858)</u>
Total current liabilities		<u>(1,592)</u>	<u>(64,194)</u>	<u>(74,531)</u>
Net current assets		<u>2,685</u>	<u>56,535</u>	<u>51,378</u>
Total assets less current liabilities		5,748	99,037	146,639
MINORITY INTERESTS				
		<u>(2,130)</u>	<u>—</u>	<u>—</u>
Net assets		<u>3,618</u>	<u>99,037</u>	<u>146,639</u>
Representing —				
SHARE CAPITAL	24	1,388	25,000	25,000
RESERVES	27	309	55,176	63,095
RETAINED PROFIT		<u>1,921</u>	<u>18,861</u>	<u>58,544</u>
Shareholders' equity		<u>3,618</u>	<u>99,037</u>	<u>146,639</u>

Consolidated cash flow statements

	Note	Years ended 30th June,		
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	28.a	<u>10,258</u>	<u>37,889</u>	<u>60,659</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		2	916	5,363
Finance costs paid		—	(1,060)	(2,452)
Dividends paid to a minority shareholder of a subsidiary		(2,426)	(3,545)	—
Dividends paid to shareholders		<u>(4,000)</u>	<u>—</u>	<u>—</u>
		<u>(6,424)</u>	<u>(3,689)</u>	<u>2,911</u>
INVESTING ACTIVITIES				
Additions of property, plant and equipment		(80)	(38,567)	(38,954)
Additions of development expenditures		—	(3,177)	(4,692)
Proceeds from disposal of property, plant and equipment		—	1	—
Acquisition of interest in subsidiaries	28.b	—	(13,800)	(13,203)
Increase in investment deposit		—	—	(16,975)
(Increase) Decrease in amounts due from directors		(2,558)	2,458	100
(Increase) Decrease in loan receivable		—	(8,000)	8,000
(Increase) Decrease in advance to an employee		—	(760)	760
(Increase) Decrease in pledged bank deposits		—	(35,000)	33,407
Translation adjustments		<u>7</u>	<u>29</u>	<u>181</u>
		<u>(2,631)</u>	<u>(96,816)</u>	<u>(31,376)</u>
Net cash inflow (outflow) before financing activities		<u>1,203</u>	<u>(62,616)</u>	<u>32,194</u>
FINANCING	28.c			
Proceeds from issue of shares		—	90,000	—
Share issuance expenses		—	(11,776)	—
Proceeds from issue of shares by a subsidiary		388	—	—
New short-term bank borrowings		—	32,988	48,593
Repayment of short-term bank borrowings		—	—	(32,988)
Decrease in amounts due to directors		(1,680)	—	—
Equity contribution by a minority shareholder of a subsidiary		<u>—</u>	<u>—</u>	<u>94</u>
		<u>(1,292)</u>	<u>111,212</u>	<u>15,699</u>
(Decrease) Increase in cash and cash equivalents		(89)	48,596	47,893
Cash and cash equivalents, beginning of year		<u>258</u>	<u>169</u>	<u>48,765</u>
Cash and cash equivalents, end of year	28.e	<u><u>169</u></u>	<u><u>48,765</u></u>	<u><u>96,658</u></u>

Notes to the consolidated financial statements

1. BASIS OF PRESENTATION

On 11th November, 1999, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (“the Reorganisation”). The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 30th June, 1999 and 2000 and as at 30th June, 1999, rather than from the date on which the Reorganisation was completed.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries (all these companies are private limited companies or, if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong private limited company):

Name	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group (i)	Principal activities
Fujian Chaoda Topmart Plant Growth Co., Ltd. (ii)	Mainland China 17th January, 2001	RMB15,800,000	100%	Manufacturing and selling of plant growth regulatory products
Fuzhou Topmart Plant Growth Co., Ltd. (iii)	Mainland China 6th July, 1999	HK\$40,000,000	100%	Manufacturing and selling of plant growth regulatory products
Loyal Faith International Industrial Limited	Hong Kong 2nd March, 1995	HK\$1,000,000	100%	Investment holding
Topmart Limited	Hong Kong 5th May, 1999	HK\$2	100%	Investment holding
Xiamen Genben Fine Chemical Industry Co., Ltd. (iv)	Mainland China 9th June, 1997	RMB1,915,000	100%	Manufacturing and selling of plant growth regulatory products
Yut Yat Company Limited	British Virgin Islands 9th March, 1999	US\$60,000	100%	Investment holding
平和縣超大浩倫錦溪生產資料有限公司 (v)	Mainland China 23rd March, 2001	RMB1,000,000	90%	Trading of pesticides, fertilisers and other agricultural products
山西超大浩倫農業科技有限公司 (vi)	Mainland China 22nd October, 2001	RMB3,000,000	95.5%	Trading of pesticides, fertilisers and other agricultural products

Notes:

- (i) The shares of Yut Yat Company Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.
- (ii) Fujian Chaoda Topmart Plant Growth Co., Ltd. is a sino-foreign equity joint venture established in Mainland China by Topmart Limited, a wholly-owned subsidiary, as the foreign joint venture partner, and Fuzhou Topmart Plant Growth Co., Ltd., a wholly foreign owned enterprise (see (iii) below) as the Mainland China joint venture partner. It is to be operated for 15 years until January 2016.
- (iii) Fuzhou Topmart Plant Growth Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 15 years up to July 2014. During the year ended 30th June, 2001, its registered capital was increased from HK\$1,200,000 to HK\$40,000,000.
- (iv) Xiamen Genben Fine Chemical Industry Co., Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 15 years until January 2013.
- (v) During the year ended 30th June, 2001, the Group invested approximately HK\$14,052,000 to acquire 90% of 平和縣超大浩倫錦溪生產資料有限公司 (“平和超大浩倫”), of which approximately HK\$13,203,000 was paid to the minority shareholder for transferring part of its trading business of agricultural resources products into 平和超大浩倫 and approximately HK\$849,000 was injected into 平和超大浩倫 as capital contribution. Goodwill resulting from this acquisition amounted to approximately HK\$13,203,000, which has been eliminated against retained profit. 平和超大浩倫 is a limited liability company established in Mainland China to be operated for 15 years until March 2016.
- (vi) 山西超大浩倫農業科技有限公司 (“山西超大浩倫”) is a limited liability company established in Mainland China to be operated for the period from 22nd October, 2001 to 30th August, 2002. In October 2001, the Group injected approximately HK\$2,702,000 into 山西超大浩倫 as capital contribution.

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

2. ORGANISATION AND OPERATIONS

The Company was incorporated in the Cayman Islands on 9th September, 1999 as an exempted company with limited liability under the Companies Law (Amended) of the Cayman Islands. Its shares have been listed on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited since 25th November, 1999. The Company has proposed to withdraw its listing on GEM so as to arrange its shares to be listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and selling of plant growth regulatory products and trading of pesticides, fertilisers and other agricultural products in Mainland China.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in preparing the consolidated financial statements, which conform with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants and the accounting principles generally accepted in Hong Kong, are as follows:

a. **Basis of measurement**

The financial statements have been prepared on the historical cost basis.

b. **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries ("the Group"). Except for the companies involved in the Reorganisation disclosed in Note 1, the results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

c. **Goodwill**

Goodwill represents the difference between the fair value of the consideration given and the Group's share of the aggregate fair values of the identifiable net assets of subsidiaries acquired. Effective from 1st July, 2001, with the adoption of the new SSAP 30 "Business Combinations", goodwill is capitalised in the balance sheet and is amortised to the income statement on a straight-line basis over its estimated useful economic life. This represents a change from prior years where goodwill was eliminated immediately against reserves. The Group has adopted the transitional provisions prescribed in SSAP 30, and all goodwill arising from earlier acquisitions before 1st July, 2001 will continue to be held in reserves and no reinstatement has been made. However, any impairment arising on such goodwill is recognised in the income statement.

The gain or loss upon disposal of interests in subsidiaries includes the unamortised balance of goodwill relating to the subsidiaries disposed of or, for acquisitions prior to 1st July, 2001, the related goodwill eliminated against reserves to the extent it has not previously been realised in the income statement.

d. **Subsidiaries**

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment or in which the Group governs and controls its financial and operating policies.

e. **Equity joint ventures**

An equity joint venture is a joint venture in which the joint venture partners' share of profit or loss and net assets upon the expiration of the joint venture period are in proportion to their equity interests as set out in the joint venture agreement. An equity joint venture is accounted for as a subsidiary if the Group owns more than 50% of the joint venture and is able to govern and control its financial and operating policies.

f. **Turnover and revenue recognition**

Turnover represents the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is delivered and title has passed. Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

g. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

h. Research and development expenditures

Research expenditures are written off as incurred. Development expenditures are charged against income in the period in which they are incurred, except for those incurred for specific projects which are deferred where recoverability can be foreseen with reasonable assurance and which comply with the following criteria: (i) the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the ability to produce or use the product or process can be demonstrated; (v) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness, can be demonstrated; and (vi) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process. Deferred development costs are amortised on a straight-line basis over a period of not more than five years in which the related products or processes are expected to be sold or used, starting from the time when the product or process is available for use.

i. Advertising and promotion costs

Costs of advertising and promotion are expensed as incurred.

j. Employee retirement benefits

Costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

k. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of that asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

l. Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on repairs and maintenance are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold land	2% (lease term)
Buildings	5%
Machinery	20%
Furniture and office equipment	20%
Motor vehicles	20%
Computer equipment and software	20%

Gains or losses on disposal of property, plant and equipment are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets.

Construction-in-progress represents buildings under construction and computer equipment and software under development. It is stated at cost, which includes construction or development costs incurred and other costs attributable to the construction or development of the related assets. No depreciation is provided in respect of construction-in-progress until the construction work or development is completed.

m. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of raw materials determined using the weighted average method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

n. Impairment of assets

Property, plant and equipment, deferred development expenditures and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

o. Provisions and contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

p. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

q. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

4. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- a. Significant transactions with related parties were:

	Years ended 30th June,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Sales to Fujian Chaoda Group (i)	6,139	2,994	—
License fees paid / payable to Fujian Chaoda Group (i)	187	50	—
Purchase of patent from Mr. Wu Shaoning, a director of the Company (ii)	—	56	—
	—	56	—

Notes:

- (i) Fujian Chaoda Group was controlled by Mr. Kwok Ho, a former director of Loyal Faith International Industrial Limited, a subsidiary of the Company. Mr. Kwok resigned as a director of the above-mentioned subsidiary effective from 8th September, 1999. Also, Ms. Chiu Na Lai, spouse of Mr. Kwok Ho, was a director of Yut Yat Company Limited and Topmart Limited, subsidiaries of the Company. Ms. Chiu Na Lai resigned as a director of the above-mentioned subsidiaries effective from 10th September, 1999. Fujian Chaoda Group is no longer considered as a related party effective from 10th September, 1999.

The license fees payable to Fujian Chaoda Group were approximately HK\$187,000 (equivalent of RMB200,000) for the year ended 30th June, 1999, and thereafter are determined at 1% of the Group's turnover, according to two trademark license agreements between Xiamen Genben Fine Chemical Industry Co., Ltd. and Fuzhou Topmart Plant Growth Co., Ltd., subsidiaries of the Company, and Fujian Chaoda Group for a period of 25 years ending June 2023 and July 2024, respectively.

- (ii) Pursuant to a patent assignment agreement dated 13th September, 1999, Mr. Wu Shaoning, a director of the Company, assigned to the Company his rights and interests in the technical knowhow relating to the production of plant growth regulatory products together with a patent application in respect thereof which was made to the Patents Registry in Mainland China under his name, at a consideration of approximately HK\$56,000.

In the opinion of the Directors of the Company, the above related party transactions were carried out in the usual course of business and on normal commercial terms.

- b. During the period from June 2000 to June 2001, the Group had short-term bank borrowings of HK\$8,000,000, which were secured by personal guarantees provided by Mr. Wu Shaoning and Mr. Tung Fai, directors of the Company. Such loans were settled and the related personal guarantees were released during the same period.

5. TURNOVER AND REVENUE

Turnover and revenue consisted of:

	Years ended 30th June,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Turnover			
— Manufacturing and selling of plant growth regulatory products	21,065	86,732	163,835
— Trading of pesticides, fertilisers and other agricultural products	—	—	23,326
Total turnover	21,065	86,732	187,161
Interest income	2	2,768	5,108
Total revenue	<u>21,067</u>	<u>89,500</u>	<u>192,269</u>

Sales to the top five customers accounted for approximately 48%, 41% and 35% of the Group's turnover for the years ended 30th June, 1999, 2000 and 2001, respectively.

6. PROFIT BEFORE TAXATION

Profit before taxation is determined after charging and crediting the following items:

	Years ended 30th June,		
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
<i>After charging—</i>			
Staff costs (including directors' emoluments) (i)	1,572	5,239	6,462
Research and development costs	1,108	4,603	6,593
Amortisation of development expenditures	506	614	1,298
Advertising and promotion expenses	69	5,839	18,826
Operating lease rentals of premises and motor vehicles	346	1,413	1,828
Finance costs			
— arrangement fee for a bank loan	—	—	3,500
— interest on bank borrowings wholly repayable within five years	—	1,074	4,401
Provision for bad and doubtful debts	—	491	457
Depreciation of property, plant and equipment	513	1,915	6,587
Loss on disposal of property, plant and equipment	141	1	2
Net exchange loss	—	116	292
Auditors' remuneration	130	629	835
<i>After crediting—</i>			
Interest income from			
— bank deposits	2	2,512	5,108
— subscription monies (ii)	—	256	—

Notes:

- (i) During the years ended 30th June, 1999, 2000, 2001, staff costs include provision for staff welfare and bonus fund of approximately HK\$98,000, HK\$208,000 and HK\$326,000, respectively, provided by Xiamen Genben Fine Chemical Industry Co., Ltd., Fuzhou Topmart Plant Growth Co., Ltd., Fujian Chaoda Topmart Plant Growth Co., Ltd. and 平和縣超大浩倫錦溪生產資料有限公司, subsidiaries established in Mainland China (collectively the "Mainland China Subsidiaries"). As stipulated by rules and regulations in Mainland China, the amount of provision for staff welfare and bonus fund is determined at the discretion of the respective boards of directors of the Mainland China Subsidiaries. The fund can be utilised for special bonuses and providing collective welfare to the employees of the Mainland China Subsidiaries.
- (ii) During the period from 19th November, 1999 to 24th November, 1999, approximately HK\$256,000 interest was earned on the subscription monies received pursuant to an initial public offering and placing of the Company's shares.

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- a. Details of directors' emoluments are:

	Years ended 30th June,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Fees for executive directors	—	—	—
Fees for non-executive directors	—	70	120
Other emoluments for executive directors			
— Basic salaries and allowances	210	1,290	1,616
— Retirement contribution	19	—	14
Other emoluments for non-executive directors	—	—	—
	<u>229</u>	<u>1,360</u>	<u>1,750</u>

No directors waived any emoluments during the years ended 30th June, 1999, 2000 and 2001. No emoluments were incurred as inducement to join or upon joining the Group for the years ended 30th June, 1999, 2000 and 2001.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	Years ended 30th June,		
	1999	2000	2001
Executive directors			
— Nil to HK\$1,000,000	3	3	3
Non-executive directors			
— Nil to HK\$1,000,000	—	2	2
	<u>3</u>	<u>5</u>	<u>5</u>

b. Details of emoluments paid to the five highest paid individuals (including directors and employees) are:

	Years ended 30th June,		
	1999	2000	2001
Number of directors	3	3	3
Number of employees	<u>2</u>	<u>2</u>	<u>2</u>
	<u>5</u>	<u>5</u>	<u>5</u>

The emoluments paid/payable to the five highest paid individuals who were directors of the Group have been included in Note 7.a above. Details of emoluments paid/payable to the non-director highest paid individuals are:—

	Years ended 30th June,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries and allowances	180	607	919
Retirement contribution	<u>38</u>	<u>—</u>	<u>14</u>
	<u>218</u>	<u>607</u>	<u>933</u>

During the years ended 30th June, 1999, 2000, 2001, no emoluments were paid to the non-director highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

The emoluments of each of the non-director highest paid individuals fall within the band of Nil to HK\$1,000,000 during the years ended 30th June, 1999, 2000 and 2001.

8. TAXATION

Taxation in the consolidated income statements consisted of:

	Years ended 30th June,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation			
— Mainland China enterprise income tax	<u>286</u>	<u>1,640</u>	<u>—</u>

The Company is exempted from taxation in the Cayman Islands until 2019.

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong.

Xiamen Genben Fine Chemical Industry Co., Ltd. ("Xiamen Genben"), a wholly-owned subsidiary established and operated in Xiamen, Fujian Province, Mainland China, a special economic region of Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%. However, it is exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. Xiamen Genben was exempted from Mainland China enterprise income tax up to 31st December, 1998 and it is subject to Mainland China enterprise income tax at a rate of 7.5% from 1st January, 1999 to 31st December, 2001. During the years ended 30th June, 1999 and 2000, Xiamen Genben recorded provisions of approximately HK\$286,000 and HK\$1,640,000, respectively, in respect of Mainland China enterprise income tax. During the year ended 30th June, 2001, no provision for Mainland China enterprise income tax was recorded by Xiamen Genben as it had no taxable profit.

Fuzhou Topmart Plant Growth Co., Ltd. ("Fuzhou Topmart") and Fujian Chaoda Topmart Plant Growth Co., Ltd. ("Fujian Chaoda Topmart"), wholly-owned subsidiaries established and operated in Fuzhou, Fujian Province, Mainland China, are subject to Mainland China enterprise income tax at a rate of 24%. However, they are exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. Fuzhou Topmart was exempted from Mainland China enterprise income tax up to 31st December, 2000 and it is subject to Mainland China enterprise income tax at a rate of 12% from 1st January, 2001 to 31st December, 2003. Fuzhou Topmart recorded no provision for Mainland China enterprise income tax as it had no taxable profit for the period from 1st January, 2001 to 30th June, 2001. Fujian Chaoda Topmart was in its first year of profitable operations during the period from 17th January, 2001 (date of incorporation) to 30th June, 2001 and, accordingly, no Mainland China enterprise income tax was payable.

平和縣超大浩倫錦溪生產資料有限公司 ("平和超大浩倫"), a 90% owned subsidiary established and operated in Zhangzhou, Fujian Province, Mainland China, is subject to Mainland China enterprise income tax at a rate of 33%. 平和超大浩倫 recorded no provision for Mainland China enterprise income tax as it had no taxable profit during the period from 23rd March, 2001 (date of incorporation) to 30th June, 2001.

There was no significant unprovided deferred taxation as at 30th June, 1999, 2000 and 2001.

9. DIVIDEND

No dividend has been paid or declared by the Company since its incorporation. The following dividend was declared by Loyal Faith International Industrial Limited to its then shareholders:

	Years ended 30th June,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Loyal Faith International Industrial Limited	<u>4,000</u>	<u>—</u>	<u>—</u>

10. EARNINGS PER SHARE

The calculations of basic earnings per share for the years ended 30th June, 1999, 2000 and 2001 are based on the respective consolidated profit attributable to shareholders of approximately HK\$5,522,000, HK\$30,008,000 and HK\$60,599,000 during the years and the respective weighted average of approximately 175,000,000, 219,877,000 and 250,000,000 ordinary shares in issue during the years.

No diluted earnings per share is presented as the outstanding unlisted warrants (see Note 25) were anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

a. Movements were:

	Land and buildings HK\$'000	Machinery HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
Cost						
As at 1st July, 1998	—	2,515	—	—	—	2,515
Additions	—	80	—	—	—	80
Disposals	—	(235)	—	—	—	(235)
Translation adjustments	—	4	—	—	—	4
As at 30th June, 1999	—	2,364	—	—	—	2,364
Additions	15,379	21,864	245	1,079	—	38,567
Disposals	—	(4)	—	—	—	(4)
Translation adjustments	41	71	—	1	—	113
As at 30th June, 2000	15,420	24,295	245	1,080	—	41,040
Additions	—	9,633	43	702	28,576	38,954
Transfer	2,491	—	—	—	(2,491)	—
Disposals	—	(2)	—	—	—	(2)
Translation adjustments	9	16	—	—	—	25
As at 30th June, 2001	<u>17,920</u>	<u>33,942</u>	<u>288</u>	<u>1,782</u>	<u>26,085</u>	<u>80,017</u>
Accumulated depreciation						
As at 1st July, 1998	—	400	—	—	—	400
Provision for the year	—	513	—	—	—	513
Disposals	—	(94)	—	—	—	(94)
Translation adjustments	—	1	—	—	—	1
As at 30th June, 1999	—	820	—	—	—	820
Provision for the year	165	1,608	33	109	—	1,915
Disposals	—	(2)	—	—	—	(2)
Translation adjustments	—	9	—	—	—	9
As at 30th June, 2000	165	2,435	33	109	—	2,742
Provision for the year	942	5,330	52	263	—	6,587
Disposals	—	—	—	—	—	—
Translation adjustments	—	2	—	—	—	2
As at 30th June, 2001	<u>1,107</u>	<u>7,767</u>	<u>85</u>	<u>372</u>	<u>—</u>	<u>9,331</u>
Net book value						
As at 30th June, 1999	<u>—</u>	<u>1,544</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,544</u>
As at 30th June, 2000	<u>15,255</u>	<u>21,860</u>	<u>212</u>	<u>971</u>	<u>—</u>	<u>38,298</u>
As at 30th June, 2001	<u>16,813</u>	<u>26,175</u>	<u>203</u>	<u>1,410</u>	<u>26,085</u>	<u>70,686</u>

The land and buildings represent the Group's factory premises located in Hui An, Fujian Province, Mainland China, on a parcel of land held under a land use right for a period of 50 years up to June 2050.

b. Analysis of construction-in-progress is:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Construction costs of buildings	—	—	2,509
Costs of computer equipment and software under development*	<u>—</u>	<u>—</u>	<u>23,576</u>
	<u>—</u>	<u>—</u>	<u>26,085</u>

* Capitalised costs of computer equipment and software represent progress payments to software consultants for the development of a computer system for the Group's own use.

12. DEVELOPMENT EXPENDITURES

Movements were:

	Years ended 30th June,		
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost			
Beginning of year	2,264	2,267	5,567
Additions	—	3,177	4,692
Translation adjustments	<u>3</u>	<u>123</u>	<u>3</u>
End of year	<u>2,267</u>	<u>5,567</u>	<u>10,262</u>
Accumulated amortisation			
Beginning of year	242	748	1,363
Amortisation	506	614	1,298
Translation adjustments	<u>—</u>	<u>1</u>	<u>1</u>
End of year	<u>748</u>	<u>1,363</u>	<u>2,662</u>
Net book value			
End of year	<u>1,519</u>	<u>4,204</u>	<u>7,600</u>
Beginning of year	<u>2,022</u>	<u>1,519</u>	<u>4,204</u>

13. INVESTMENT DEPOSIT

In September 2000, the Group paid a deposit of approximately HK\$16,975,000 to an agricultural biotechnology research centre in Mainland China ("the Research Centre") in return for an exclusive right to negotiate with the Research Centre the formation of a joint venture with the Research Centre for production of a new type of biological pesticide developed by the Research Centre. If a joint venture is established, the investment deposit will be injected into the joint venture as part of the Group's contribution. If a joint venture cannot be established before 31st May, 2002 due to default by the Research Centre or other events uncontrollable by both parties, the Research Centre is obliged to refund to the Group the entire investment deposit before 30th June, 2002 in cash or to transfer to the Group the exclusive right to use the aforementioned biological pesticide. Details of the joint venture, including, among other things, equity allocation and investment amount, have not been finalised as at the date of this report.

14. INVENTORIES

Inventories consisted of:

	1999	30th June,	2001
	<i>HK\$'000</i>	<i>2000</i>	<i>2001</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	261	1,636	1,906
Work-in-progress	24	6	52
Finished goods	<u>22</u>	<u>195</u>	<u>3,263</u>
	<u>307</u>	<u>1,837</u>	<u>5,221</u>

No inventory was stated at net realisable value as at 30th June, 1999, 2000 and 2001.

15. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

As at 30th June, 2000, approximately HK\$760,000 of the Group's prepayments, deposits and other assets was an advance to an employee, So Siu Ping. During the years ended 30th June, 2000 and 2001, the maximum balance outstanding for the advance to the employee amounted to approximately HK\$760,000. The outstanding balance with the employee was unsecured, non-interest bearing and without pre-determined repayment terms.

16. ACCOUNTS RECEIVABLE

The Group generally requires its customers to pay a deposit shortly before delivery of merchandise, with the balance of the sales amount payable within credit periods ranging from 30 to 60 days. Aging analysis of accounts receivable is as follows:

	1999	30th June,	2001
	<i>HK\$'000</i>	<i>2000</i>	<i>2001</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	602	6,967	13,551
31 to 60 days	<u>246</u>	<u>3,283</u>	<u>4,863</u>
	848	10,250	18,414
Less: Provision for bad and doubtful debts	<u>—</u>	<u>(491)</u>	<u>(948)</u>
	<u><u>848</u></u>	<u><u>9,759</u></u>	<u><u>17,466</u></u>

17. LOAN RECEIVABLE

	1999	30th June,	2001
	<i>HK\$'000</i>	<i>2000</i>	<i>2001</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Loan receivable	<u>—</u>	<u>8,000</u>	<u>—</u>

The loan receivable was unsecured, bore interest at 1.5% above Hong Kong dollar interbank offered rates or Hong Kong prime lending rate, whichever was higher, and was repayable within one year. Such loan was repaid in September 2000.

18. DUE FROM DIRECTORS

Details of amounts due from directors were:

	1999	30th June,	2001
	<i>HK\$'000</i>	<i>2000</i>	<i>2001</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Wu Shaoning	2,558	69	—
Mr. Yang Zhuoya	<u>—</u>	<u>31</u>	<u>—</u>
	<u><u>2,558</u></u>	<u><u>100</u></u>	<u><u>—</u></u>

Maximum balances outstanding during the years ended 30th June, 1999, 2000 and 2001 were:

	Years ended 30th June,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Mr. Wu Shaoning	2,558	2,902	69
Mr. Yang Zhuoya	<u>—</u>	<u>31</u>	<u>31</u>

The outstanding balances with directors were unsecured, non-interest bearing and repayable on demand.

Had interest been charged on the outstanding balances due from directors based on the average interest rates earned by the Group on saving deposits of approximately 4% per annum, the Group would have earned interest, net of tax, of approximately HK\$102,000, HK\$110,000 and HK\$61,000 for the years ended 30th June, 1999, 2000 and 2001, respectively.

19. DUE FROM A RELATED COMPANY

Details of amounts due from a related company were:

	30th June,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Double More International Ltd.*	<u>125</u>	<u>—</u>	<u>—</u>

Maximum balances during the years ended 30th June, 1999, 2000 and 2001 were:

	Years ended 30th June,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Double More International Ltd.*	<u>125</u>	<u>125</u>	<u>—</u>

* Double More International Ltd. was beneficially owned by Ms. Chiu Na Lai, a director of Yut Yat Company Limited and Topmart Limited, the Company's subsidiaries, during the year ended 30th June, 1999. Ms. Chiu Na Lai resigned as a director of the above-mentioned subsidiaries effective from 10th September, 1999.

The outstanding balance with Double More International Ltd. was unsecured, non-interest bearing and without pre-determined repayment terms. Had interest been charged on the outstanding balance due from the related company based on the average interest rates earned by the Group on saving deposits of approximately 4% per annum, the Group would have received interest, net of tax, of approximately HK\$5,000, HK\$5,000 and HK\$3,000 for the years ended 30th June, 1999, 2000 and 2001, respectively.

20. CASH AND BANK DEPOSITS

Cash and bank deposits consisted of:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Pledged bank deposits, denominated in			
— Hong Kong dollars	—	41,021	—
— Chinese Renminbi	—	—	1,593
	<u>—</u>	<u>41,021</u>	<u>1,593</u>
	<u>—</u>	<u>41,021</u>	<u>1,593</u>
Other cash and bank deposits, denominated in			
— Hong Kong dollars and United States dollars	24	40,415	78,690
— Chinese Renminbi	145	16,329	17,968
	<u>169</u>	<u>56,744</u>	<u>96,658</u>
	<u>169</u>	<u>56,744</u>	<u>96,658</u>

Chinese Renminbi (“RMB”) is not a freely convertible currency in the international market and its exchange rate is determined by the People’s Bank of China.

21. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consisted of:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term bank borrowings, denominated in			
— Hong Kong dollars	—	14,000	47,000
— Chinese Renminbi	—	32,988	1,593
	<u>—</u>	<u>46,988</u>	<u>48,593</u>
	<u>—</u>	<u>46,988</u>	<u>48,593</u>

As at 30th June, 2001, the short-term bank borrowings bear interest at rates ranging from approximately 6% to 11% per annum. Refer to Note 32 for the Group’s banking facilities.

22. ACCOUNTS PAYABLE

Aging analysis of accounts payable is as follows:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	—	3,122	3,635
31 to 60 days	—	1,513	366
61 to 90 days	—	—	—
91 to 180 days	—	—	19
181 to 365 days	—	—	37
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>4,635</u>	<u>4,057</u>

23. ACCRUALS AND OTHER PAYABLES

Accruals and other payables consisted of:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accrued operating expenses	784	3,482	4,170
Accrued promotion and advertising expenses	—	3,175	6,022
Accrued finance costs	—	14	5,463
Accrued staff welfare and bonus fund (see Note 6)	143	351	677
Others	379	1,691	1,691
	<u>379</u>	<u>1,691</u>	<u>1,691</u>
	<u>1,306</u>	<u>8,713</u>	<u>18,023</u>

24. SHARE CAPITAL

Movements were:

	Years ended 30th June,					
	1999		2000		2001	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised						
(ordinary shares of HK\$0.10 each)						
Beginning of year	—	—	—	—	500,000	50,000
Incorporation of the Company (i)	—	—	1,000	100	—	—
The Reorganisation referred to in Note 1 (ii)	—	—	1,000	100	—	—
Increase in authorised share capital (iii)	—	—	498,000	49,800	—	—
End of year	—	—	500,000	50,000	500,000	50,000
Issued and fully paid						
(ordinary shares of HK\$0.10 each)						
Beginning of year	—	—	—	—	250,000	25,000
Issue of shares upon incorporation (i)	—	—	1,000	—	—	—
Issue of shares arising from the Reorganisation referred to in Note 1 (ii)	—	—	1,000	200	—	—
Issue of shares through public offering and placing (iv)	—	—	75,000	7,500	—	—
Capitalisation of share premium (v)	—	—	173,000	17,300	—	—
End of year	—	—	250,000	25,000	250,000	25,000

Notes:

- (i) On 9th September, 1999, the Company was incorporated with an authorised share capital of \$100,000, divided into 1,000,000 shares of HK\$0.10 each. On 10th September, 1999, one share was issued at par and was fully paid in cash, and the remaining 999,999 shares were issued at par, nil paid.
- (ii) On 11th November, 1999, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000, by the creation of an additional 1,000,000 shares ranking pari passu with the then existing shares in all respects. On the same date, the 999,999 shares issued on 10th September, 1999 were credited as fully paid, and an additional 1,000,000 shares were issued at par and credited as fully paid, in exchange for the entire issued share capital of Yut Yat Company Limited.

- (iii) On 11th November, 1999, the authorised share capital of the Company was increased from HK\$200,000 to HK\$50,000,000, by the creation of an additional 498,000,000 shares ranking *pari passu* with the then existing shares in all respects.
- (iv) On 11th November, 1999, 75,000,000 shares of HK\$0.10 each were issued at HK\$1.20 per share through a public offering and placing (“the New Issue”), resulting in net cash proceeds of approximately HK\$78,224,000.
- (v) Immediately after the New Issue, share premium of HK\$17,300,000 was capitalised for the issuance of 173,000,000 shares of HK\$0.10 each on a pro-rata basis to the Company’s shareholders before the New Issue.

As at 30th June, 1999, the share capital reflected in the consolidated balance sheet represents the aggregate amount of the paid-in capital of the companies comprising the Group at that date.

25. WARRANTS

In November 2000, in connection with obtaining a loan of HK\$47,000,000 from a bank, the Company issued warrants to the bank conferring rights to subscribe for shares in the Company up to HK\$47,000,000 at a subscription price of HK\$1.38 per share (subject to adjustment). These warrants are transferable and exercisable during the period from 7th November, 2000 to 7th November, 2001 (both dates inclusive). No warrants were exercised during the year ended 30th June, 2001.

On 31st October, 2001, certain of the unlisted warrants of the Company carrying subscription rights for shares in the Company were exercised to subscribe for 20,434,782 shares in the Company at a subscription price of HK\$1.38 per share, with the total proceeds amounting to approximately HK\$28,200,000.

The remaining unlisted warrants lapsed on 7th November, 2001 and were no longer exercisable.

26. EMPLOYEE SHARE OPTIONS

On 11th November, 1999, the Company adopted an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by a duly authorised committee of the board of directors. The subscription price will not be less than the highest of (i) the nominal value of the Company’s shares, (ii) the average of the closing price of the shares quoted on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the grant date, and (iii) the closing price of the shares on the grant date. During the years ended 30th June, 2000 and 2001, no options were granted under the employee share option scheme.

27. RESERVES

Movements were:

	Share premium HK\$'000	Statutory reserves (i) HK\$'000	Capital reserve (ii) HK\$'000	Cumulative translation adjustments HK\$'000	Total HK\$'000
Balance as at 30th June, 1998	—	—	—	3	3
Transfer from retained profit to statutory reserves	—	293	—	—	293
Translation adjustments	—	—	—	13	13
Balance as at 30th June, 1999	—	293	—	16	309
Premium on issue of shares	82,500	—	—	—	82,500
Share issuance expenses	(11,776)	—	—	—	(11,776)
Capitalisation of share premium	(17,300)	—	—	—	(17,300)
Effect of the Reorganisation (Note 1)	—	—	1,188	—	1,188
Translation adjustments	—	—	—	255	255
Balance as at 30th June, 2000	53,424	293	1,188	271	55,176
Transfer from retained profit to statutory reserves	—	7,713	—	—	7,713
Translation adjustments	—	—	—	206	206
Balance as at 30th June, 2001	<u>53,424</u>	<u>8,006</u>	<u>1,188</u>	<u>477</u>	<u>63,095</u>

Notes:

- (i) As stipulated by rules and regulations in Mainland China, enterprises with foreign investment are required to appropriate part of their after-tax profit (after offsetting prior year losses) to certain statutory reserves. Xiamen Genben Fine Chemical Industry Co., Ltd. ("Xiamen Genben") and Fuzhou Topmart Plant Growth Co., Ltd. ("Fuzhou Topmart"), as wholly foreign owned enterprises established in Mainland China, are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to a general reserve fund until the balance of the fund reaches 50% of their share capital and thereafter any further appropriation is optional and is determinable by the companies' board of directors. Fujian Chaoda Topmart Plant Growth Co., Ltd. ("Fujian Chaoda Topmart"), as a sino-foreign equity joint venture established in Mainland China, is required to make appropriation to a general reserve fund and an enterprise expansion fund at rates at the discretion of its board of directors.

During the year ended 30th June, 1999, the board of directors of Xiamen Genben resolved to appropriate approximately HK\$293,000 from the company's retained profit to its general reserve funds. During the year ended 30th June, 2000, the boards of directors of Fuzhou Topmart and Xiamen Genben did not resolve to appropriate any of the companies' after-tax profit to the general reserve fund as the companies did not resolve to distribute any of their retained profit. During the year ended 30th June, 2001, the boards of directors of Fuzhou Topmart and Xiamen Genben resolved to appropriate approximately HK\$7,112,000 and HK\$601,000 from the respective company's retained profit to their general reserve funds. Thereafter, the general reserve fund of Xiamen Genben had reached 50% of the company's share capital and its board of directors determined that no further appropriation is necessary unless there is an increase in the amount of its share capital.

During the year ended 30th June, 2001, the board of directors of Fujian Chaoda Topmart determined not to make any appropriation to the general reserve fund or enterprise expansion fund.

The statutory reserves as at 30th June, 2001 represent general reserve funds of Xiamen Genben of approximately HK\$894,000 and Fuzhou Topmart of approximately HK\$7,112,000, which can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on the condition that the general reserve fund shall be maintained at a minimum of 25% of the share capital after such issuance.

- (ii) Capital reserve represents (a) capital reserve of the subsidiaries, and (b) the difference between the aggregate nominal value of the share capital issued by the Company and the aggregate nominal amount of the share capital of subsidiaries through an exchange of shares.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

- a. Reconciliation of profit before taxation to net cash inflow from operating activities:

	Years ended 30th June,		
	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	9,266	33,795	60,505
Interest income	(2)	(2,768)	(5,108)
Finance costs	—	1,074	7,901
Depreciation of property, plant and equipment	513	1,915	6,587
Amortisation of development expenditures	506	614	1,298
Loss on disposal of property, plant and equipment	141	1	2
Decrease (Increase) in inventories	757	(1,530)	(3,384)
Increase in prepayments, deposits and other current assets	(615)	(386)	(2,718)
Increase in accounts receivable	(177)	(8,911)	(7,707)
(Increase) Decrease in amount due from a related company	(125)	125	—
(Decrease) Increase in accounts payable	(356)	4,635	(578)
Increase in accruals and other payables	350	9,325	3,861
Net cash inflow from operating activities	<u>10,258</u>	<u>37,889</u>	<u>60,659</u>

b. Acquisition of interest in subsidiaries:

During the year ended 30th June, 2000, the Group acquired an additional 37.33% interest in Xiamen Genben Fine Chemical Industry Co., Ltd. from the minority shareholder for cash consideration of approximately HK\$13,800,000. Details of the acquisition are:

	<i>HK\$'000</i>
Share of net assets by minority interests as at the date of acquisition	732
Goodwill	<u>13,068</u>
Cash consideration paid	<u><u>13,800</u></u>

During the year ended 30th June, 2001, the Group invested approximately HK\$14,052,000 to acquire 90% of 平和縣超大浩倫錦溪生產資料有限公司 (“平和超大浩倫”), of which approximately HK\$13,203,000 was paid to the minority shareholder and approximately HK\$849,000 was injected into 平和超大浩倫 as capital contribution. Details of the acquisition are:

	<i>HK\$'000</i>
The estimated fair value of the net assets of the subsidiary as at the date of acquisition	—
Goodwill	<u>13,203</u>
Cash consideration paid	<u><u>13,203</u></u>

c. Analysis of changes in financing is:

	Short-term bank borrowings	Share capital and share premium	Minority interests
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at 30th June, 1998	—	1,000	1,098
Issue of shares by a subsidiary	—	388	—
Share of profit for the year	—	—	3,458
Dividends paid to a minority shareholder	—	—	(2,426)
	<hr/>	<hr/>	<hr/>
Balance as at 30th June, 1999	—	1,388	2,130
Issue of shares through a public offering and placing	—	90,000	—
Share issuance expenses	—	(11,776)	—
Share exchange upon the Reorganisation (Note 1)	—	200	—
Effect of Reorganisation (Note 1)	—	(1,388)	—
New short-term bank borrowings, repayable			
— within three months	14,000	—	—
— more than three months	32,988	—	—
Share of profit for the year	—	—	2,147
Dividends paid to a minority shareholder	—	—	(3,545)
Minority interests acquired by the Group	—	—	(732)
	<hr/>	<hr/>	<hr/>
Balance as at 30th June, 2000	46,988	78,424	—
Repayment of short-term bank borrowings, repayable			
— within three months	(14,000)	—	—
— more than three months	(32,988)	—	—
New short-term bank borrowings	48,593	—	—
Equity contribution by a minority shareholder of a subsidiary	—	—	94
Share of loss for the year	—	—	(94)
	<hr/>	<hr/>	<hr/>
Balance as at 30th June, 2001	<u>48,593</u>	<u>78,424</u>	<u>—</u>

d. Major non-cash transaction:

During the year ended 30th June, 2000, 1,999,999 of the Company's ordinary shares of HK\$0.10 each were issued and credited as fully paid in exchange for the entire issued share capital of Yut Yat Company Limited, a subsidiary.

e. Analysis of cash and cash equivalents is:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Pledged bank deposits	—	6,021	—
Other cash and bank deposits	169	56,744	96,658
Short-term bank borrowings	—	<u>(14,000)</u>	—
	<u>169</u>	<u>48,765</u>	<u>96,658</u>

29. PENSION SCHEMES

As stipulated by rules and regulations in Mainland China, the Group's subsidiaries in Mainland China are required to contribute to a state-sponsored retirement plan for their employees in Mainland China. The companies contribute to the state-sponsored retirement plan approximately 21% of the basic salary of their employees, and have no further obligation for the actual pension payments or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

From 1st December, 2000, the Group has arranged for its employees in Hong Kong to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to maximum monthly earnings of HK\$20,000 and thereafter contributions are voluntary.

During the years ended 30th June, 1999, 2000 and 2001, the aggregate amount of the Group's contributions to the aforementioned retirement pension schemes were approximately HK\$601,000, HK\$304,000 and HK\$291,000, respectively. As at 30th June, 1999, 2000 and 2001, there were no material forfeited contributions available to reduce the employer's contributions payable in future periods.

30. SEGMENT INFORMATION

a. Primary segment

The Group is organised into two major operating units - (i) manufacturing and selling of plant growth regulatory products ("the manufacturing unit"); and (ii) trading of fertilisers, pesticides and other agricultural products ("the trading unit").

Turnover by principal activity and their respective contributions to profit (loss) from operations are:

	Years ended 30th June,		
	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover			
— manufacturing unit	21,065	86,732	163,835
— trading unit	—	—	23,326
	<u>21,065</u>	<u>86,732</u>	<u>187,161</u>
Profit (Loss) attributable to shareholders			
— manufacturing unit	5,522	30,008	62,062
— trading unit	—	—	(1,463)
	<u>5,522</u>	<u>30,008</u>	<u>60,599</u>
Depreciation and amortisation			
— manufacturing unit	1,019	2,529	7,569
— trading unit	—	—	316
	<u>1,019</u>	<u>2,529</u>	<u>7,885</u>
Capital expenditures			
— manufacturing unit	80	38,567	37,859
— trading unit	—	—	1,095
	<u>80</u>	<u>38,567</u>	<u>38,954</u>

An analysis of the Group's assets and liabilities as at 30th June, 1999, 2000 and 2001 by segment is as follows:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets			
— manufacturing unit	7,340	163,231	208,752
— trading unit	<u>—</u>	<u>—</u>	<u>12,418</u>
	<u>7,340</u>	<u>163,231</u>	<u>221,170</u>
Liabilities			
— manufacturing unit	(1,592)	(64,194)	(69,317)
— trading unit	<u>—</u>	<u>—</u>	<u>(5,214)</u>
	<u>(1,592)</u>	<u>(64,194)</u>	<u>(74,531)</u>

b. Secondary segment

No geographical analysis of the Group's turnover and their respective contributions to profit (loss) from operations is presented as all of the Group's turnover is attributable to business conducted in Mainland China.

31. COMMITMENTS

a. Capital commitments:

Capital commitments not provided for in the financial statements are analysed as follows:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised and contracted for			
— purchase of property, plant and equipment	<u>—</u>	<u>1,305</u>	<u>11,066</u>
Authorised but not contracted for			
— purchase of property, plant and equipment	<u>2,250</u>	<u>—</u>	<u>13,203</u>

b. **Operating lease commitments:**

Total commitments payable under various non-cancellable operating lease agreements in respect of rented premises and motor vehicles are analysed as follows:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable			
— within one year	276	1,242	2,988
— between one and two years	1,186	564	402
— between two and five years	—	—	98
	<u>1,462</u>	<u>1,806</u>	<u>3,488</u>

The commitments payable within the next twelve months are analysed as follows:

	1999	30th June, 2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leases expiring within a period			
— not exceeding one year	—	129	2,176
— within two years to five years	276	1,113	812
	<u>276</u>	<u>1,242</u>	<u>2,988</u>

32. BANKING FACILITIES

The Group had aggregate bank loan facilities, which were fully utilised, of approximately Nil, HK\$46,988,000 and HK\$48,593,000 as at 30th June, 1999, 2000 and 2001, respectively. The facilities are secured by (i) the Group's bank deposits amounting to approximately Nil, HK\$41,021,000 and HK\$1,593,000 respectively, and (ii) during the period from June 2000 to June 2001, personal guarantees provided by Mr. Wu Shaoning and Mr. Tung Fai, directors of the Company.

33. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 30th June, 2001 and up to the date of this report:

- a. On 31st October, 2001, certain of the unlisted warrants of the Company carrying subscription rights for shares in the Company were exercised to subscribe for 20,434,782 shares in the Company at a subscription price of HK\$1.38 per share, with the total proceeds amounting to approximately HK\$28,200,000.
- b. In October 2001, the Group injected approximately HK\$2,702,000 into 山西超浩倫 as capital contribution. 山西超浩倫 is a limited liability company established in Mainland China to be operated for the period from 22nd October, 2001 to 30th August, 2002.

II. FINANCIAL INFORMATION ABOUT THE COMPANY

The following are the balance sheets of the Company as at 30th June, 2000 and 2001:

Balance sheet

	<i>Note</i>	30th June,	
		2000	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Investment in subsidiaries	1	<u>92,686</u>	<u>76,379</u>
CURRENT ASSETS			
Prepayments, deposits and other current assets		210	905
Due from a subsidiary	1	—	23,499
Dividend receivable from a subsidiary		4,000	—
Pledged bank deposits		6,021	—
Other cash and bank deposits		<u>5,182</u>	<u>40,407</u>
Total current assets		<u>15,413</u>	<u>64,811</u>
CURRENT LIABILITIES			
Short-term bank borrowings		(14,000)	(47,000)
Accruals and other payables		<u>(1,267)</u>	<u>(6,834)</u>
Total current liabilities		<u>(15,267)</u>	<u>(53,834)</u>
Net current assets		<u>146</u>	<u>10,977</u>
Net assets		<u>92,832</u>	<u>87,356</u>
Representing —			
SHARE CAPITAL		25,000	25,000
RESERVES	2	64,951	64,951
RETAINED PROFIT (ACCUMULATED DEFICIT)		<u>2,881</u>	<u>(2,595)</u>
Shareholders' equity		<u>92,832</u>	<u>87,356</u>

The balance sheet as at 30th June, 1999 is not presented as the Company was incorporated after 30th June, 1999.

Notes to the financial statements

1. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries consisted of:

	30th June,	
	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	11,727	11,727
Due from subsidiaries	<u>80,959</u>	<u>64,652</u>
	<u>92,686</u>	<u>76,379</u>

The above amounts due from subsidiaries of approximately HK\$80,959,000 and HK\$64,652,000 as at 30th June, 2000 and 2001 are unsecured and non-interest bearing. The Company has agreed not to demand repayment from the subsidiaries until the subsidiaries are financially capable to do so. In addition, the Company had an amount due from a subsidiary of approximately HK\$23,499,000 as at 30th June, 2001, which is unsecured, bears interest at approximately 6% per annum and had no pre-determined repayment terms.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than its carrying value as at 30th June, 2000 and 2001.

2. RESERVES

Movements were:

	Share premium <i>HK\$'000</i>	Contributed surplus* <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 30th June, 1999	—	—	—
Premium on issue of shares	82,500	—	82,500
Share issuance expenses	(11,776)	—	(11,776)
Capitalisation of share premium	(17,300)	—	(17,300)
Effect of the Reorganisation	<u>—</u>	<u>11,527</u>	<u>11,527</u>
Balance as at 30th June, 2000 and 2001	<u>53,424</u>	<u>11,527</u>	<u>64,951</u>

Note:

- * The contributed surplus of the Company represents the difference between the aggregate nominal value of the share capital issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares.

Under the Companies Law (Amended) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve, unless immediately following the date on which the distributions or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at 30th June, 2000 and 2001, the Company's reserves available for distribution to shareholders amounted to approximately HK\$67,832,000 and HK\$62,356,000 computed in accordance with the Companies Law (Amended) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium and contributed surplus of approximately HK\$53,424,000 and HK\$11,527,000, respectively, plus retained profit of approximately HK\$2,881,000 (30th June, 2000) and less accumulated deficit of approximately HK\$2,595,000 (30th June, 2001).

3. DIRECTORS' EMOLUMENTS

Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors of the Company for the year ending 30th June, 2002 will be approximately HK\$1,800,000, excluding discretionary bonuses payable under directors' service contracts. Further details of directors' service contracts are set out in the paragraph headed "Further Information about the Directors, Senior Management and Staff" of Appendix IV to this document.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30th June, 2001. In addition, no dividend has been declared or paid by the Company or any of the companies now comprising the Group subsequent to 30th June, 2001.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants

Yours faithfully,
CHARLES CHAN, IP AND FUNG CPA LTD.
Certified Public Accountants
Chan Wai Dune, Charles
Practising Certificate Number P00712

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this document received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31st October, 2001 of the property interests of the Group in Hong Kong and the PRC.



CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

The Chinese characters '西門' (Sai Mon) in a stylized, bold font.

15/F Trinity House
165-171 Wanchai Road
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

14th December, 2001

The Directors
China Agrotech Holdings Limited
Room 2706, 27/F
China Resources Building
No. 26 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which China Agrotech Holdings Limited (the “Company”), and its subsidiaries (together the “Group”) have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the relevant properties as at 31st October, 2001.

Our valuations of the property interests are our opinion of the open market value which we would define as intended to mean “the best price at which an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of the valuation assuming:-

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing to the interest, for the agreement of price and terms and for the completion of the sales;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Our valuations have been made on the assumption that the owner sells the properties on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the properties.

Based on this open market approach, the property interests rented and occupied by the Group have no commercial value due mainly to the short term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents or the insufficient proof of legal title to the properties.

In valuing the property interests in the PRC, we have complied with all the requirements contained in Practice Note 12 of the Listing Rules governing the listing of securities issued by The Stock Exchange of Hong Kong Limited.

We have not carried out detailed site measurements to verify the correctness of the site areas and floor areas in respect of the relevant properties but have assumed that the areas shown on the documents and official site plans and floor plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have been shown copies of various documents including State-owned Land Use Rights Certificates and official site plans relating to the properties in the PRC and have made relevant enquiries where possible. Due to the nature of the land registration system in the PRC, we have not examined the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. We are not in a position to advise you on the Group's title to the properties.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to use on such matters as planning approvals or statutory notices, easements, tenure, occupation, letting, rentals, site and floor areas and all other relevant matters.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificate, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey has been made, but in the course of our inspection we did not note any apparent serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our report for any expenses or taxation which may be incurred. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoing of an onerous nature which could affect their value.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld. Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
SALLMANN (FAR EAST) LIMITED
Paul L. Brown
BSc FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 18 years of experience in the valuation of properties in the PRC and 21 years of property valuation experience in Hong Kong, the United Kingdom and Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests rented and occupied by the Group in Hong Kong

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
1. Room 2706, 27/F China Resources Buildings No. 26 Harbour Road Wanchai Hong Kong	No commercial value
2. Flat 02, 23/F Block B Villa Rocha No.10 Broadwood Road Hong Kong	No commercial value
3. Flat A, 20/F Block 3 City Garden No. 233 Electric Road North Point Hong Kong	No commercial value

Group II — Property interests owned and occupied by the Group in the PRC

4. Land and buildings located at Chientang Village Louyang Town Hui An County Fujian Province The PRC	18,008,000
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**Capital value
attributable to the
Group as at
31st October, 2001
HK\$**

Property**Group III — Property interests rented and occupied by the Group in the PRC**

- | | | |
|----|--|---------------------|
| 5. | Office units on the 30th Level
Zhongshan Building
No. 154
Hu Dong Road
Fuzhou City
Fujian Province
The PRC | No commercial value |
| 6. | 2/F, 36 Xi Yuan Street
Xi Yuan Village
Jin An District
Fuzhou City
Fujian Province
The PRC | No commercial value |
| 7. | Unit 404
Block 31
Chi Xin Jin
New Village
Fuzhou City
Fujian Province
The PRC | No commercial value |
| 8. | Group Six
Ping Che Village
Shan Ge Town
Ping He County
Fujian Province
The PRC | No commercial value |
| 9. | The First Level
Jin Shan Building
Dong Da Road
Xiao Xi Town
Ping He County
Fujian Province
The PRC | No commercial value |

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
10. Shop No. 6 Guo Shui Phase II Dormitory Dong Po Road Yung An City Fujian Province The PRC	No commercial value
11. No. 61 Zhong Shan Xi Road Shun Chang County Fujian Province The PRC	No commercial value
12. No. 1 Yue Shan Guan Ba Yi Road Shao Wu City Fujian Province The PRC	No commercial value
13. No. 10 Cheng Xi Road Sway An Town Zhang Pu County Fujian Province The PRC	No commercial value
14. No. 111 Zong Yuan Village Mei Xi Town Ming Ching County Fujian Province The PRC	No commercial value
15. Shop on the Highway 316 Hung Shan Chiao Fuzhou City Fujian Province The PRC	No commercial value

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
16. Hung Shan Granary Hung Shan Chiao Fuzhou City Fujian Province The PRC	No commercial value
17. No. 23 Huan Cheng Xi Road Wu Ping County Fujian Province The PRC	No commercial value
18. Shop located left to Ai Xin Hotel West Gate Jian Ning County Fujian Province The PRC	No commercial value
19. Warehouse located at Ying Ho Industrial Zone Siao Ken Tou Da Tong Village Su Cheng District Zhangzhou City Fujian Province The PRC	No commercial value
20. Shop No. 1 “Agricultural World” Wai Huan Dong Road Zhang Ping County Fujian Province The PRC	No commercial value

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
21. Shop No. 2 “Agricultural World” Wai Huan Dong Road Zhang Ping County Fujian Province The PRC	No commercial value
22. No. 5 Jie Fang Street Cheng Guan Sung Xi County Fujian Province The PRC	No commercial value
23. No. 68 Chi Wu Road Cheng Guan Long Xi Fujian Province The PRC	No commercial value
24. West Gate Cheng Guan Long Xi Fujian Province The PRC	No commercial value
25. No. 19 Zhong Shan Road Jian Au City Fujian Province The PRC	No commercial value
26. No. 71 Fu Shan Road Jiao Cheng District Ning De City Fujian Province The PRC	No commercial value

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
27. No. 107 Wun Ho Village Zi Shan Town Hui An County Fujian Province The PRC	No commercial value
28. Shop No. 2 Block 143 Xing She Nam Road San Ming Fujian Province The PRC	No commercial value
29. No. 49 Xi Da Er Road Cheng Guan Ning Hua Fujian Province The PRC	No commercial value
30. No. 46 Chiao Nam Road Zhou Ning County Fujian Province The PRC	No commercial value
31. No. 19 Nam Jin Xing Road Fujian Province The PRC	No commercial value
32. No. 189 Jie Fang Street Sho Ning County Fujian Province The PRC	No commercial value

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
33. No. 2 Da Tong Xi Road Hua Feng Town Hua An Fujian Province The PRC	No commercial value
34. No. 95-2 Xi Bian Road Yun Lin Town Yun Xiao County Fujian Province The PRC	No commercial value
35. Shop No. 43 Shipyard Composite Building Cheng Xi Nam Road Sha County Fujian Province The PRC	No commercial value
36. Ground Level Taxation Bureau Building located opposite to New Post Office Building Chang Tai County Fujian Province The PRC	No commercial value
37. Si Chiao Tou South Gate Cheng Guan Xia Pu County Fujian Province The PRC	No commercial value

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
38. No. 53 Xian Nam Street Sung Cheng Town Xia Pu County Fujian Province The PRC	No commercial value
39. No. 278 Peng Hu Road Yung Chun County Fujian Province The PRC	No commercial value
40. Hu San Village Hu Tou Town An Xi City Fujian Province The PRC	No commercial value
41. Xian Chiao An District Tung An Xiamen City The PRC	No commercial value
42. Hung Lai Street Nam An City Fujian Province The PRC	No commercial value
43. No. 19 Fu Chang Road Chien Chi Town Fu Ding City Fujian Province The PRC	No commercial value

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
44. No. 34 Xia Guang Wan Wu Town Fu An City Fujian Province The PRC	No commercial value
45. Xi Shan Composite Building Hu Bing Town Gu Tian County Fujian Province The PRC	No commercial value
46. 1-6 of No. 286 Heng Pai Road Shui Nam Street Yen Ping District Nam Ping City Fujian Province The PRC	No commercial value
47. 1-7 of No. 286 Heng Pai Road Shui Nam Street Yen Ping District Nam Ping City Fujian Province The PRC	No commercial value
48. No. 2 Long Ken Road Yen Ping District Nam Ping City Fujian Province The PRC	No commercial value

Property	Capital value attributable to the Group as at 31st October, 2001 HK\$
49. Ground Level Unity Warfare Bureau Dormitory 818 Zhong Road Gang Jer Fujian Province The PRC	No commercial value
50. Tien Jeo Bay Cheng Xian District Pu Tian City Fujian Province The PRC	No commercial value
51. No. 83 San Wa Da Dao Jian Le County Fujian Province The PRC	No commercial value
52. No. 8 He Ping Street North Sung Cheng Town Tai Ning Fujian Province The PRC	No commercial value
53. No. 222 Xin Pu Road Pu Cheng County Fujian Province The PRC	No commercial value
54. No. 27 Shangzhou Road Wu Yi Shan City Fujian Province The PRC	No commercial value

Property	Capital value attributable to the Group as at 31st October, 2001 <i>HK\$</i>
55. The First Level She Yoi Building Jian Yang City Fujian Province The PRC	No commercial value
Grand-total:	<hr/> <u>18,008,000</u>

VALUATION CERTIFICATE

Group I - Property interests rented and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
1. Room 2706, 27/F China Resources Buildings No. 26 Harbour Road Wanchai Hong Kong	<p>The property comprises an office accommodation on the 27th Floor of a 50-storey commercial building completed in about 1983.</p> <p>The property has an area of 2,201 sq.ft. or thereabouts.</p> <p>The property is rented to the Group from an independent third party for a term of two years commencing from 16th October, 2000 to 15th October, 2002 at a monthly rental of HK\$41,819 exclusive of rates, management fees and air-conditioning charges.</p>	The property is currently occupied by the Group as an office.	No commercial value
2. Flat 02, 23/F Block B Villa Rocha No.10 Broadwood Road Hong Kong	<p>The property comprises a residential unit on the 23rd Floor of a 28-storey residential building completed in about 1983.</p> <p>The property has an area of 1,313 sq.ft. or thereabouts.</p> <p>The property is rented to the Group from an independent third party for a term of two years commencing from 1st December, 1999 to 30th November, 2001 at a monthly rental of HK\$30,000.</p>	The property is currently occupied by the Group as the Director's quarter.	No commercial value
3. Flat A, 20/F Block 3 City Garden No. 233 Electric Road North Point Hong Kong	<p>The property comprises a residential unit on the 20th Floor of a 28-storey residential building completed in about 1983.</p> <p>The property has an area of 896 sq.ft. or thereabouts.</p> <p>The property is rented to the Group from an independent third party for a term of three years commencing from 8th May, 2001 to 7th May, 2003 at a monthly rental of HK\$16,000.</p>	The property is currently occupied by the Group as a staff quarter.	No commercial value

Group II - Property interest owned and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
4. Land and buildings located at Chientang Village Louyang Town Hui An County Fujian Province The PRC	<p>The property comprises a land parcel with a site area of approximately 59,744 sq.m. and five buildings with a total gross floor area of approximately 6,859 sq.m. erected thereon.</p> <p>The land use rights of the land have been granted to Fuzhou Topmart Plant Growth Co. Ltd., a subsidiary of the Company for a term expiring on 23rd June, 2050 for industrial and ancillary uses.</p>	The property is currently occupied by Fuzhou Topmart Plant Growth Co. Ltd. for industrial and ancillary uses.	18,008,000 (Please also see notes 3 and 4 below)

Notes:

- Pursuant to a State-owned Land Use Rights Certificate, Hui Guo Yung (2000) Zi Di No. 120014 issued by Hui An County Land Administrative Bureau on 22nd August, 2000, the land use rights of the property is granted to Fuzhou Topmart Plant Growth Co., Ltd. for a term terminating on 23rd June, 2050 for industrial and ancillary uses.
- Pursuant to a Sale and Purchase Agreement entered into between Hui An Cheng Nam Central Industrial Area Development Co., Ltd. and Fuzhou Topmart Plant Growth Co., Ltd. on 1st December, 1999, Hui An Cheng Nam Central Industrial Area Development Co., Ltd. transferred the land use rights of the subject land to Fuzhou Topmart Plant Growth Co., Ltd. at a consideration of RMB9,000,000.
- There are currently 5 buildings with a total gross floor area of approximately 6,859 sq.m. constructed on the subject site. According to the opinion of the Group's PRC Legal Advisers, the Building Ownership Certificates of these buildings are currently under application and there will be no legal impediment for Fuzhou Topmart Plant Growth Co., Ltd. to obtain the Building Ownership Certificates for these buildings.
- As advised by the Company, the application for the Building Ownership Certificates was made in March 2001 and is expected to be completed before April 2002. The Building Ownership Certificates are expected to be issued thereafter. A sum of approximately RMB300,000 is to be paid for such application.
- The open market value of the property includes our opinion of value of depreciated replacement costs of the 5 buildings of approximately HK\$7,800,000, in which the Building Ownership Certificates are currently under application.

Group III - Property interests rented and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
5. Office units on the 30th Level Zhongshan Building No. 154 Hu Dong Road Fuzhou City Fujian Province The PRC	<p>The property comprises the office units on the 30th level of a 32-storey office building completed in 1995.</p> <p>The property has a gross floor area of about 179 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 1st September, 2001 to 31st August, 2002 at a monthly rental of RMB8,568.</p>	The property is currently occupied by the Group for office use.	No commercial value
6. 2/F, 36 Xi Yuan Street Xi Yuan Village Jin An District Fuzhou City Fujian Province The PRC	<p>The property comprises a research institute on the second level of a 3-storey building completed in about 1983.</p> <p>The property has a gross floor area of about 396 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of five years commencing on 1st August, 1999 to 30th July, 2004 at a monthly rental of RMB8,000.</p>	The property is currently occupied by the Group as a research institute.	No commercial value
7. Unit 404 Block 31 Chi Xin Jin New Village Fuzhou City Fujian Province The PRC	<p>The property comprises a residential unit on the fourth level of a seven-storey residential building completed in the 1990s.</p> <p>The property has a gross floor area of about 86 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 13th August, 2001 to 12th August, 2002 at a monthly rental of RMB1,100.</p>	The property is currently occupied by the Group as a staff quarter.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
8. Group Six Ping Che Village Shan Ge Town Ping He County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 258 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 5th March, 2001 at a monthly rental of RMB3,926.</p>	The property is currently used by the Group for retail store use.	No commercial value
9. The First Level Jin Shan Building Dong Da Road Xiao Xi Town Ping He County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a five-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 1,640 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 5th March, 2001 at a monthly rental of RMB16,480.</p>	The property is currently used by the Group for retail store use.	No commercial value
10. Shop No.6 Guo Shui Phase II Dormitory Dong Po Road Yung An City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a eight-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 250 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 20th March, 2001 at a monthly rental of RMB3,060.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
11. No. 61 Zhong Shan Xi Road Shun Chang County Fujian Province The PRC	The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1980s.	The property is currently used by the Group for retail store use.	No commercial value
	The property has a gross floor area of about 325 sq.m.		
	The property is rented to the Group from an independent third party for a term of one year commencing on 8th April, 2001 at a monthly rental of RMB2,900.		
12. No. 1 Yue Shan Guan Ba Yi Road Shao Wu City Fujian Province The PRC	The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1990s.	The property is currently used by the Group for retail store use.	No commercial value
	The property has a gross floor area of about 700 sq.m.		
	The property is rented to the Group from an independent third party for a term of one year commencing on 10th April, 2001 at a monthly rental of RMB6,580.		
13. No. 10 Cheng Xi Road Sway An Town Zhang Pu County Fujian Province The PRC	The property comprises an agricultural resources supermarket store on the first-level of a three-storey commercial building completed in the 1990s.	The property is currently used by the Group for retail store use.	No commercial value
	The property has a gross floor area of about 800 sq.m.		
	The property is rented to the Group from an independent third party for a term of one year commencing on 6th April, 2001 at a monthly rental of RMB11,460.		

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
14. No. 111 Zong Yuan Village Mei Xi Town Ming Ching County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 600 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 14th March, 2001 at a monthly rental of RMB8,370.</p>	The property is currently used by the Group for retail store use.	No commercial value
15. Shop on the Highway 316 Hung Shan Chiao Fuzhou City Fujian Province The PRC	<p>The property comprises a two-storey industrial building completed in the 1980s.</p> <p>The property has a gross floor area of about 240 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 10th March, 2001 at a monthly rental of RMB5,280.</p>	The property is currently used by the Group for warehouse use.	No commercial value
16. Hung Shan Granary Hung Shan Chiao Fuzhou City Fujian Province The PRC	<p>The property comprises a three-storey industrial building completed in the 1960s.</p> <p>The property has a gross floor area of about 260 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 15th March, 2001 at a monthly rental of RMB2,470.</p>	The property is currently used by the Group for warehouse use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
17. No. 23 Huan Cheng Xi Road Wu Ping County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 700 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 10th March, 2001 at a monthly rental of RMB7,140.</p>	The property is currently used by the Group for retail store use.	No commercial value
18. Shop located left to Ai Xin Hotel West Gate Jian Ning County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a seven-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 400 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 24th March, 2001 at a monthly rental of RMB4,630.</p>	The property is currently used by the Group for retail store use.	No commercial value
19. Warehouse located at Ying Ho Industrial Zone Siao Ken Tou Da Tong Village Su Cheng District Zhangzhou City Fujian Province The PRC	<p>The property comprises a warehouse on the first two-levels of a three-storey industrial building completed in about about 2001.</p> <p>The property has a gross floor area of about 838 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 5th March, 2001 at a monthly rental of RMB7,542.</p>	The property is currently used by the Group for warehouse use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
20. Shop No.1 “Agricultural World” Wai Huan Dong Road Zhang Ping County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 340 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 11th March, 2001 at a monthly rental of RMB4,400.</p>	The property is currently used by the Group for retail store use.	No commercial value
21. Shop No.2 “Agricultural World” Wai Huan Dong Road Zhang Ping County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 220 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 11th April, 2001 at a monthly rental of RMB3,828.</p>	The property is currently used by the Group for retail store use.	No commercial value
22. No. 5 Jie Fang Street Cheng Guan Sung Xi County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a 5-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 1,080 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 13th March, 2001 at a monthly rental of RMB9,620.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
23. No. 68 Chi Wu Road Cheng Guan Long Xi Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a 5-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 560 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 11th April, 2001 at a monthly rental of RMB6,640.</p>	The property is currently used by the Group for retail store use.	No commercial value
24. West Gate Cheng Guan Long Xi Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a 5-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 400 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 7th July, 2001 at a monthly rental of RMB4,400.</p>	The property is currently used by the Group for retail store use.	No commercial value
25. No. 19 Zhong Shan Road Jian Au City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a 7-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 420 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 18th March, 2001 at a monthly rental of RMB4,920.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
26. No. 71 Fu Shan Road Jiao Cheng District Ning De City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 540 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 13th March, 2001 at a monthly rental of RMB4,940.</p>	The property is currently used by the Group for retail store use.	No commercial value
27. No. 107 Wun Ho Village Zi Shan Town Hui An County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 370 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 10th March, 2001 at a monthly rental of RMB4,350.</p>	The property is currently used by the Group for retail store use.	No commercial value
28. Shop No. 2 Block 143 Xing She Nam Road San Ming Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a three-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 700 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 25th March, 2001 at a monthly rental of RMB7,020.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
29. No. 49 Xi Da Er Road Cheng Guan Ning Hua Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 390 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 11th April, 2001 at a monthly rental of RMB4,170.</p>	The property is currently used by the Group for retail store use.	No commercial value
30. No. 46 Chiao Nam Road Zhou Ning County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 270 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 14th March, 2001 at a monthly rental of RMB3,120.</p>	The property is currently used by the Group for retail store use.	No commercial value
31. No. 19 Nam Jin Xing Road Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a five-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 1,200 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 5th March, 2001 at a monthly rental of RMB12,000.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
32. No. 189 Jie Fang Street Sho Ning County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a four-storey commercial building completed in about 2000.</p> <p>The property has a gross floor area of about 290 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 12th March, 2001 at a monthly rental of RMB3,630.</p>	The property is currently used by the Group for retail store use.	No commercial value
33. No. 2 Da Tong Xi Road Hua Feng Town Hua An Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 220 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 1st June, 2001 at a monthly rental of RMB2,685.</p>	The property is currently used by the Group for retail store use.	No commercial value
34. No. 95-2 Xi Bian Road Yun Lin Town Yun Xiao County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in about 2001.</p> <p>The property has a gross floor area of about 460 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 8th March, 2001 at a monthly rental of RMB5,700.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
35. Shop No. 43 Shipyard Composite Building Cheng Xi Nam Road Sha County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single- storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 334 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 1st June, 2001 at a monthly rental of RMB3,705.</p>	The property is currently used by the Group for retail store use.	No commercial value
36. Ground Level Taxation Bureau Building located opposite to New Post Office Building Chang Tai County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a seven-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 300 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 8th March, 2001 at a monthly rental of RMB3,600.</p>	The property is currently used by the Group for retail store use.	No commercial value
37. Si Chiao Tou South Gate Cheng Guan Xia Pu County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 520 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 9th April, 2001 at a monthly rental of RMB5,720.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
38. No. 53 Xian Nam Street Sung Cheng Town Xia Pu County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 200 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 12th April, 2001 at a monthly rental of RMB2,245.</p>	The property is currently used by the Group for retail store use.	No commercial value
39. No. 278 Peng Hu Road Yung Chun County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 250 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 9th April, 2001 at a monthly rental of RMB2,580.</p>	The property is currently used by the Group for retail store use.	No commercial value
40. Hu San Village Hu Tou Town An Xi City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1970s.</p> <p>The property has a gross floor area of about 370 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 7th March, 2001 at a monthly rental of RMB4,355.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
41. Xian Chiao An District Tung An Xiamen City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 736 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 8th April, 2001 at a monthly rental of RMB7,596.</p>	The property is currently used by the Group for retail store use.	No commercial value
42. Hung Lai Street Nam An City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 200 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 6th April, 2001 at a monthly rental of RMB2,800.</p>	The property is currently used by the Group for retail store use.	No commercial value
43. No. 19 Fu Chang Road Chien Chi Town Fu Ding City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a four-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 600 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 11th April, 2001 at a monthly rental of RMB7,440.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
44. No. 34 Xia Guang Wan Wu Town Fu An City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a four-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 600 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 16th March, 2001 at a monthly rental of RMB7,200.</p>	The property is currently used by the Group for retail store use.	No commercial value
45. Xi Shan Composite Building Hu Bing Town Gu Tian County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a five-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 400 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 15th March, 2001 at a monthly rental of RMB4,360.</p>	The property is currently used by the Group for retail store use.	No commercial value
46. 1-6 of No. 286 Heng Pai Road Shui Nam Street Yen Ping District Nam Ping City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 580 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 15th March, 2001 at a monthly rental of RMB6,800.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
47. 1-7 of No. 286 Heng Pai Road Shui Nam Street Yen Ping District Nam Ping City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 650 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 15th April, 2001 at a monthly rental of RMB5,850.</p>	The property is currently used by the Group for retail store use.	No commercial value
48. No. 2 Long Ken Road Yen Ping District Nam Ping City Fujian Province The PRC	<p>The property comprises a warehouse on the first-level of a two-storey industrial building completed in the 1980s.</p> <p>The property has a gross floor area of about 615 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 20th March, 2001 at a monthly rental of RMB5,535.</p>	The property is currently used by the Group for warehouse use.	No commercial value
49. Ground Level Unity Warfare Bureau Dormitory 818 Zhong Road Gang Jer Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 150 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 14th March, 2001 at a monthly rental of RMB1,780.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
50. Tien Jeo Bay Cheng Xian District Pu Tian City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a single-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 220 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 22nd March, 2001 at a monthly rental of RMB2,280.</p>	The property is currently used by the Group for retail store use.	No commercial value
51. No. 83 San Wa Da Dao Jian Le County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a two-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 520 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 7th July, 2001 at a monthly rental of RMB4,280.</p>	The property is currently used by the Group for retail store use.	No commercial value
52. No. 8 He Ping Street North Sung Cheng Town Tai Ning Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first two-levels of a four-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 1,185 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 10th July, 2001 at a monthly rental of RMB10,195.</p>	The property is currently used by the Group for retail store use.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value attributable to the Group as at 31st October, 2001 HK\$
53. No. 222 Xin Pu Road Pu Cheng County Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first-level of a five-storey commercial building completed in the 1980s.</p> <p>The property has a gross floor area of about 410 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 17th July, 2001 at a monthly rental of RMB3,940.</p>	The property is currently used by the Group for retail store use.	No commercial value
54. No. 27 Shangzhou Road Wu Yi Shan City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first level of a six-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 110 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 10th July, 2001 at a monthly rental of RMB1,605.</p>	The property is currently used by the Group for retail store use.	No commercial value
55. The First Level She Yoi Building Jian Yang City Fujian Province The PRC	<p>The property comprises an agricultural resources supermarket store on the first level of a single-storey commercial building completed in the 1990s.</p> <p>The property has a gross floor area of about 140 sq.m.</p> <p>The property is rented to the Group from an independent third party for a term of one year commencing on 17th July, 2001 at a monthly rental of RMB1,316.</p>	The property is currently used by the Group for retail store use.	No commercial value

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9th September, 1999 under the Companies Law. The memorandum of association (the “Memorandum”) and the articles of association (the “Articles”) of the Company comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company) and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person, irrespective of any question of corporate benefit, as provided in section 27(4) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 21st September 1999. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and the Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the

Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a

Director. The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board, subject to authorisation by the members at general meeting, but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. The Directors will propose in the next annual general meeting of the Company that the maximum number of Directors be ten. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director

may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by resolution of the Directors subject to the confirmation of the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to confirm any amendment to the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) such fractions may be sold by some person appointed by the board for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions in due proportion or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house is a member of the Company it may authorise such person or persons (or its nominee) as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual member of the Company.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors; and
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing share capital.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominees(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to

such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$10.00, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m), above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1995 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 5th October, 1999.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) **Winding up**

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix IV. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 9th September, 1999 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares. On 10th September, 1999, one Share was allotted and issued to the subscriber to the Company's memorandum of association, Codan Trust Company (Cayman) Limited, and subsequently transferred to Mr. Wu. A further 999,999 Shares were allotted and issued nil paid, as to 799,999 Shares to Mr. Wu, 160,000 Shares to Mr. Tung Fai and 40,000 Shares to Madam Chiu Na Lai. All the nil paid Shares were subsequently paid up in the manner described below.

The Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of Cayman Islands company law is set out in Appendix III to this document.

2. Changes in share capital

Pursuant to resolutions in writing of the shareholders of the Company passed on 11th November, 1999, the share capital of the Company was increased to HK\$200,000 by the creation of 1,000,000 Shares, which were on that date allotted and issued, credited as fully paid.

In consideration of the transfer by Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai to the Company of an aggregate of 60,000 shares of US\$1.00 each in Yut Yat (being its entire issued share capital), the intermediate holding company of the Group, the Company (i) allotted and issued, credited as fully paid, 1,000,000 new Shares, as to 800,000 Shares to Mr. Wu, 160,000 Shares to Mr. Tung Fai and 40,000 Shares to Madam Chiu Na Lai; and (ii) credited as fully paid an aggregate of 999,999 nil paid Shares in issue and held as to 799,999 Shares by Mr. Wu, 160,000 Shares by Mr. Tung Fai and 40,000 Shares by Madam Chiu Na Lai on 11th November, 1999.

On or before 25th November, 1999, the Company issued a total of 75,000,000 Shares at HK\$1.20 per Share through a public offering and a placing and a total of 173,000,000 Shares, credited as fully paid, to holders of Shares whose names appeared on the register of members of the Company at the close of business on 11th November, 1999 in proportion to their then existing shareholdings.

On 1st November, 2001, the Company issued a total of 20,434,782 Shares at HK\$1.38 per Share pursuant to the exercise of the Warrants. The net proceeds from the issue of such Shares were HK\$28,200,000 and were used as working capital of the Group.

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$50,000,000 divided into 500,000,000 Shares of which 270,434,782 Shares were allotted and issued fully paid or credited as fully paid, and 229,565,218 Shares remain unissued. Other than pursuant to the exercise

of any options which may be granted under the Share Option Scheme or the exercise of the General Mandate, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions of the shareholders of the Company passed on 21st September, 1999, 11th November, 1999 and 7th November, 2001

- (a) On 21st September, 1999, the Company adopted the Articles of Association in substitution for and to the exclusion of its then existing articles of association.
- (b) On 11th November, 1999, the following resolutions (among others) were passed:
 - (i) the authorised share capital was increased from HK\$200,000 to HK\$50,000,000 by the creation of a further 498,000,000 Shares; and
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 12 of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme.
- (c) On 7th November, 2001, the following resolutions (among others) were passed:
 - (i) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first; and
 - (ii) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares on GEM or any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose with an aggregate nominal amount not exceeding 10% of the nominal amount of the share capital of the Company in issue, until the conclusion of the next annual general meeting of the

Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first.

4. Changes in share capital of the Company's subsidiaries

On 20th October, 2000, the registered capital of Fuzhou Topmart was increased from HK\$1,200,000 to HK\$10,000,000. On 19th January, 2001, its registered capital was further increased to HK\$40,000,000.

On 17th January, 2001, Fujian Topmart was established with a registered capital of RMB15,800,000.

On 23rd March, 2001, Pinghe Topmart was established with a registered capital of RMB1,000,000.

On 22nd October, 2001, Shanxi Topmart was established with a registered capital of RMB3,000,000.

Save as disclosed herein, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this document.

5. Repurchase by the Company of its own securities

This paragraph 5 includes information required by the Stock Exchange to be included in this document concerning the repurchase by the Company of its own securities.

(a) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Company's memorandum and articles of association and the Companies Law. A company whose shares are listed on the Stock Exchange may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands law, repurchases by the Company may only be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from the shareholders to enable the Company to

repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) *Funding of repurchases*

In repurchasing shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the Listing Rules and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares would be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase and, in case of the premium payable on such repurchase, from profits of the Company or out of the Company's share premium account.

On the basis of the current financial position of the Group as disclosed in this document and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this document. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing level which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 270,434,782 Shares in issue immediately after the Introduction, would result in up to 27,043,478 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) *General*

None of the Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a share repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could

obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any purchase of Shares which results in the number of Shares held by the public being reduced to less than the minimum prescribed percentage (as defined under the Listing Rules) of the Shares then in issue could only be implemented with the agreement of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

6. Registration under Part XI of the Companies Ordinance

The Company has a place of business in Hong Kong at Room 2706, 27th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The Company was registered as an overseas company under Part XI of the Companies Ordinance. Ms. So Siu Ping of Flat E, 4th Floor, Block 1, Elegant Garden, 409 Queen's Road West, Hong Kong was appointed as agent of the Company for the acceptance of service of process and notices in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this document and are or may be material:

- (a) a term loan agreement dated 2nd November, 2000 between the Company and Fleet National Bank, Hong Kong Branch as supplemented by a supplemental deed dated 7th November, 2000 and a second supplemental deed dated 9th November, 2000 pursuant to which Fleet National Bank, Hong Kong Branch, advanced HK\$47,000,000 to the Company;
- (b) an agreement dated 30th August, 2000 between the Company and the Biotechnology Research Centre of the Fujian Agricultural School as supplemented by an agreement dated 30th August, 2000 pursuant to which the Company has an exclusive right to negotiate with the Biotechnology Research Centre for the formation of a joint venture for the production of biological pesticide in consideration of the payment of a deposit of RMB18,000,000;
- (c) an agreement dated 23rd February, 2001 between Fuzhou Topmart, Fujian Jinxi and Fujian Topmart in relation to the establishment of Pinghe Topmart and pursuant to which Fuzhou Topmart and Fujian Topmart paid RMB14,000,000 to Fujian Jinxi for its transfer of part of its business to Pinghe Topmart;

- (d) two trade mark licensing agreements dated 2nd February, 2001 and 26th March, 2001, respectively which are referred to in paragraph 8(a) of this Appendix; and
- (e) an agreement dated 30th November, 2001 between Mr. Wu and Fujian Topmart pursuant to which Mr. Wu assigned to Fujian Topmart his rights and interests in the technical knowhow relating to the production of DCPTA and the patent application in respect thereof made to the PRC Patents Registry, at a consideration of RMB60,000.

8. Intellectual property rights of the Group

(a) Trade mark

Pursuant to four trade mark licensing agreements dated 15th June, 1998 (which was supplemented by an agreement dated 9th September, 1999), 6th July, 1999 (which was supplemented by an agreement dated 9th September, 1999), 2nd February, 2001 and 26th March, 2001, respectively, Supreme Bonus granted an exclusive license to Xiamen Genben, Fuzhou Topmart, Fujian Topmart and Pinghe Topmart to use the following registered trade mark in the PRC to Xiamen Genben, Fuzhou Topmart, Fujian Topmart and Pinghe Topmart, respectively, for a fixed term of 25 years commencing from 15th June, 1998 (in the case of Xiamen Genben), 6th July, 1999 (in the case of Fuzhou Topmart), 2nd February, 2001 (in the case of Fujian Topmart) and 26th March, 2001 (in the case of Pinghe Topmart).

Trade mark	Class	Registration Number	Registration Date	Product covered
	1	1080094	21st August, 1997	fertiliser

The licence fee payable by Xiamen Genben to Supreme Bonus pursuant to the trade mark licence agreement is RMB200,000 for the first year of the term of the licence, and in each year thereafter, an annual sum equivalent to 1% of its total turnover per year, to be paid in arrears prior to 30th June each year.

The licence fee payable by Fuzhou Topmart to Supreme Bonus pursuant to the trade mark licence agreement is an annual sum equivalent to 1% of its total turnover per year, to be paid in arrears prior to 31st July each year.

The licence fee payable by Fujian Topmart to Supreme Bonus pursuant to the trade mark licence agreement is an annual sum equivalent to 1% of its total turnover per year, to be paid in arrears prior to 31st July each year.

The licence fee payable by Pinghe Topmart to Supreme Bonus pursuant to the trade mark licence agreement is an annual sum equivalent to 0.1% of its total turnover per year, to be paid in arrears prior to 31st July each year.

(b) *Patent*

Pursuant to a patent assignment dated 13th September, 1999, Mr. Wu assigned to the Company all his rights and interests in the technical knowhow relating to the production of DCPTA and the patent application in respect thereof which was made to the PRC Patents Registry in Mr. Wu's name on 16th July, 1999, at a consideration of RMB60,000. The patent assignment dated 13th September, 1999 provided that the application right of the patent registration should be transferred by Mr. Wu to the Company within ten days after the signing of such assignment. However, the transfer of the application right of the patent registration involved complicated and time-consuming procedures. In addition, the Group has been fully making use of the technical knowhow during the course of its business and it was originally intended that the patent registration would be transferred to the Group upon the completion of the entire registration process (instead of transferring the application right in respect thereof). Accordingly, no arrangement was made to transfer the application right of the patent registration from Mr. Wu to the Group until November 2001.

To formalise the patent registration, at the direction of the Company and on the basis of the patent assignment dated 13th September, 1999 (which remains valid), Mr. Wu signed a patent assignment dated 30th November, 2001 with Fujian Topmart and appointed a patent agent recognised by the PRC Patents Registry in respect of patent registration matters in Fujian Province, the PRC, to make an application for the transfer of the application right in respect of the patent registration to Fujian Topmart in November 2001. The patent agent in Fujian Province submitted the application for such transfer to the PRC Patents Registry on 4th December, 2001 based on the patent assignment dated 30th November, 2001. The Directors understand that any similar transfer will normally require six months to complete all the necessary procedures in the PRC and expect the transfer of the application right to the Group will be completed before July 2002.

9. Information on the Group's PRC enterprises

(a) *Xiamen Genben*

Xiamen Genben, previously known as Xiamen Defeng Fine Chemical Industry Co. Ltd., was a Sino-foreign equity joint venture established in the PRC on 9th June, 1997 and the Group then had a 62.67% interest in Xiamen Genben. In April 2000, the Group acquired the remaining 37.33% interest in Xiamen Genben from the other joint venture party and Xiamen Genben became a wholly foreign-owned enterprise. Xiamen Genben is engaged in the production and sale of PGRs. The following is a summary of information on Xiamen Genben:

Date of establishment:	9th June, 1997, under the former name of Xiamen Defeng Fine Chemical Industry Co. Ltd.
Operational term:	15 years from 4th January, 1998 (being the date of the business licence)
Total investment:	RMB2,680,000
Registered capital:	RMB1,915,000
Legal representative:	Mr. Wu

(b) *Fuzhou Topmart*

Fuzhou Topmart is a wholly-owned subsidiary of Topmart, and is a wholly foreign-owned enterprise established in the PRC and engaged in the production and sale of PGRs. The following is a summary of information on Fuzhou Topmart:

Date of establishment:	6th July, 1999
Operational term:	15 years from 6th July, 1999
Total investment:	HK\$100,000,000
Registered capital:	HK\$40,000,000
Legal representative:	Mr. Wu

(c) *Fujian Topmart*

Fujian Topmart is a Sino-foreign equity joint venture established in the PRC and engaged in the production of pesticides and fertilisers, the development and production of agricultural produce and the provision of agricultural technology consulting services. The parties to the joint venture are Topmart and Fuzhou Topmart, both of which are wholly-owned subsidiaries of the Company. The following is a summary of information on Fujian Topmart:

Date of establishment:	17th January, 2001
Operational term:	15 years from 17th January, 2001
Total investment:	RMB31,500,000
Registered capital:	RMB15,800,000
Capital contribution:	Topmart — RMB11,060,000 Fuzhou Topmart — RMB4,740,000
Equity interests:	Topmart — 70% Fuzhou Topmart — 30%
Board of directors:	three directors, all appointed by the Group

Fujian Topmart is currently applying for the increase of the total investment and the registered capital to RMB46,020,000 and RMB30,320,000, respectively and the capital contribution of Fuzhou Topmart will be changed to RMB19,260,000. If the application is approved, the equity interests of Topmart and Fuzhou Topmart in Fujian Topmart will become 36.5% and 63.5%, respectively.

(d) *Pinghe Topmart*

Pinghe Topmart is a limited liability company established in the PRC and is engaged in the sale of fertilisers, pesticides and other agricultural materials. The following is a summary of information on Pinghe Topmart:

Date of establishment:	23rd March, 2001
Operational term:	15 years from 23rd March, 2001
Total investment:	RMB1,000,000
Registered capital:	RMB1,000,000
Shareholders:	Fujian Topmart — 66% Fuzhou Topmart — 24% Fujian Jinxi (which, other than being a substantial shareholder of Pinghe Topmart, is independent of and not connected with any of the Director or substantial shareholders of the Company and their respective associates) — 10%
Legal representative:	Mr. Yang Zhuoya

(e) *Shanxi Topmart*

Shanxi Topmart is a limited liability company established in the PRC and is engaged in the sale of fertilisers, pesticides and other agricultural materials. The following is a summary of information on Shanxi Topmart:

Date of establishment:	22nd October, 2001
Operational term:	from 22nd October, 2001 to 30th August, 2002
Total investment:	RMB3,000,000
Registered capital:	RMB3,000,000
Shareholders:	Fujian Topmart — 95.5% Fujian Chaoda Group (which is independent of and not connected with any of the Director or substantial shareholders of the Company and their respective associates) — 4.5%
Legal representative:	Mr. Wu

FURTHER INFORMATION ABOUT THE DIRECTORS, SENIOR MANAGEMENT AND STAFF

10. Disclosure of interests

(a) *Particulars of Directors' service contracts*

Each of Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya, being all the executive Directors, has entered into a service contract with the Company, in the case of Mr. Wu, for a term of 10 years, and in the case of Mr. Tung Fai and Mr. Yang Zhuoya, for a term of three years, all commencing from 15th November, 1999, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to a basic salary (subject to an annual increment at a rate to be determined by a majority of the Directors). In addition, each of the executive Directors is also entitled to a management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors who are entitled to such bonuses for any financial year of the Group may not exceed 6% of the audited consolidated net profit of the Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of the Group. Under the Articles of Association and the service contracts between the Directors and the Company, an executive Director may not vote on any resolution of the Directors regarding the amount of the annual increment and management bonus payable to him/her. The basic annual salaries of the executive Directors under the service contracts are as follows:

Name	Annual Salary
Mr. Wu	HK\$360,000
Mr. Tung Fai	HK\$360,000
Mr. Yang Zhuoya	HK\$360,000

Save as disclosed in this document, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(b) *Directors' remuneration*

During the year ended 30th June, 2001, the aggregate remuneration paid and benefits in kind granted to the Directors who acted in the capacity as a director of the Group were approximately HK\$1,750,000.

Under the present arrangements, the aggregate of the remuneration paid or payable to, and benefits in kind received or receivable by, the Directors for the year ending 30th June, 2002 are estimated to be approximately HK\$1,800,000 (excluding management bonuses, if any, payable to the Directors).

(c) *Disclaimers*

Save as disclosed in this document:

- (i) and taking no account of any Shares which may be taken up or acquired under any option which may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following the Introduction will hold either directly or indirectly, or be beneficially interested in, Shares representing 10% or more of the nominal value at any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;
- (ii) none of the Directors has for the purpose of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interests which are required to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or are required pursuant to the Listing Rules to be notified to the Company and the Stock Exchange;
- (iii) none of the Directors or the experts named in paragraph 17 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in, any assets which were acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this document or which are proposed to be acquired or disposed of by or leased to any member of the Group;
- (iv) no Director is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole; and
- (v) none of the experts named in paragraph 17 of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

11. Substantial shareholder

So far as the Directors are aware, as at the Latest Practicable Date, the following shareholders are interested in 10% or more of the Shares.

Name	Number of Shares	Percentage of issued Shares
Mr. Wu	140,000,000	51.77%
Mr. Tung Fai	28,000,000	10.35%

So far as the Directors are aware, as at the Latest Practicable Date, Fujian Jinxi was interested in 10% of the shares in Pinghe Topmart.

12. Share Option Schemes

(a) *Share Option Scheme*

The following is a summary of the principal terms of the Share Option Scheme approved and adopted by the resolutions passed by all shareholders of the Company on 11th November, 1999. As at the Latest Practicable Date, no options have been granted or agreed to be granted under the Share Option Scheme.

(i) Who may join

The Directors may, at their absolute discretion, invite any full time employee (“eligible employee”) of the Company or any of its subsidiaries, including any executive director of the Company or any such subsidiary, to take up options to subscribe for Shares.

(ii) Price for Shares

The subscription price for Shares under the Share Option Scheme will be a price determined by the Directors, which shall be calculated with reference to the higher of (i) the closing price of the Shares on the Stock Exchange on the date of grant of the option, and (ii) the average closing price of the Shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(iii) Maximum number of Shares

(aa) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme may not (when aggregated with Shares subject to any other employee share option scheme) exceed in nominal amount of 10% of the issued share capital of the Company for a specified period of 10 consecutive years (the “10-year period”), excluding for this purpose, Shares issued upon the exercise of any options granted under the Share Option Scheme (or any other employee share option scheme) and any pro rata entitlements to further Shares issued in respect of those Shares mentioned above.

(bb) No option may be granted to any one person which, if exercised in full, will result in the total number of Shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme exceeding 25% of the maximum aggregate number of Shares for the time being issued and which may fall to be issued under the Share Option Scheme.

(iv) Time of exercise of option

An option may be accepted by an employee within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period from the expiry of three years from the date upon which the option is deemed to be granted and accepted and ending on a date as determined by the Board, which in any event shall not exceed 10 years from that date, subject to the provisions for early termination thereof.

No option may be granted more than 10 years after the date of adoption of the Share Option Scheme.

(v) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable save as provided under the rules of the Share Option Scheme.

(vi) Rights on ceasing employment

If the grantee of an option ceases to be an eligible employee of the Group for any reason other than death, ill-health or retirement in accordance with his contract of employment or for other grounds referred to in subparagraph (viii) below before exercising his option in full, the option (to the extent not already exercised) will lapse 30 days after the date of cessation and will not be exercisable unless the Directors otherwise determine, in which event, the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not.

(vii) Rights on death, ill-health or retirement

If the grantee of an option ceases to be an eligible employee of the Group by reason of his death before exercising the option in full, his personal representative(s) may exercise the option (to the extent not already exercised) within a period of 12 months following the date of death. If the grantee of an option ceases to be an eligible employee of the Group by reason of his ill-health or retirement in accordance with his contract of employment before exercising the option in full, the grantee may exercise the option (to the extent not already exercised) within a period of three months following the date of cessation.

(viii) Rights on dismissal

If the grantee of an option ceases to be an eligible employee of the Group by reason that he has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty (other than an offence which in the opinion of the Directors does not bring the grantee or the Company into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an eligible employee.

(ix) Effect of alterations to capital

In the event of any alteration in the structure of the Company whether by way of reduction, sub-division or consolidation of the share capital of the Company, rights issue or capitalisation of profits or reserves other than an issue of Shares as consideration in respect of a transaction to which the Company is a party and alterations made on a capitalization issue, any alteration to the number or nominal amount of Shares comprised in each option, the option price and/or the method of exercise of the option shall be conditional on the auditors of the Company confirming in writing to the Board that the adjustments proposed is on the basis that the proportion of the equity capital of the Company that grantee is entitled to after adjustment shall remain the same as that before the adjustment and that no Shares will be issued at less than the nominal value.

(x) Rights on general offer

If a general offer is made to acquire all or part of the issued Shares, or all or part of the issued Shares other than those held by the offeror and any person acting in concert with the offeror, the Company shall give written notice to all the grantees of such vesting as soon as reasonably practicable after becoming so aware. Each grantee may, within 21 days of the date of such notice, by notice in writing to the Company exercise his or her option to its full extent or to the extent specified in his or her notice to the Company.

(xi) Rights on a compromise or arrangement

In the event of a compromise or arrangement between the Company and its creditors or any of its members, a grantee may by notice in writing to the Company, within the period of 21 days after the date of application to the court in connection with the proposed compromise or arrangement, exercise his or her option to its full extent or to the extent specified in such notice. Upon the compromise or arrangement becoming effective, all options shall lapse except insofar as exercised.

(xii) Rights on winding up

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his or her option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his or her option, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the Shares in issue on the day prior to the date of such resolution.

(xiii) Ranking of Shares

- (aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association and will rank *pari passu* in all respects with the

fully paid Shares in issue at the date of allotment (except in relation to a divided or distribution previously declared or recommended or resolved to be paid or paid) if the record date thereof shall be before such date of allotment.

(bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(xiv) Cancellation of Options

Any cancellation of options granted but not exercised must be approved by the shareholders of the Company in general meeting, with grantees and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(xv) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted by a resolution of the shareholders of the Company in general meeting.

(xvi) Alteration to the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme relating to matters contained in rule 23.03 of the GEM Listing Rules will not be altered to the advantage of the grantees or prospective grantees except with the prior sanction of a resolution of the Company in general meeting, with the grantees and their associates abstaining from voting.

(xvii) Administration of the Share Option Scheme

The Company will bear the costs of establishing and administering the Share Option Scheme and the Share Option Scheme will be administered by a committee comprising the independent non-executive Directors.

(xviii) Termination of the Share Option Scheme

The Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme. In such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

(xix) Price Sensitive Development

Any grant of options will not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results, no option will be granted until such information has been so announced.

(b) *Proposed Share Option Scheme*

The following is a summary of the principal terms of the Proposed Share Option Scheme proposed to be adopted by the shareholders of the Company on 31st December, 2001 to replace the Share Option Scheme. The Proposed Share Option Scheme is also conditional on the Introduction, the Listing Committee of the Stock Exchange granting approval of such scheme, the subsequent grant of options by the Company pursuant thereto and listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Proposed Share Option Scheme.

(i) Purpose of the scheme

The purpose of the Proposed Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

(ii) Who may join

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any entity (“Invested Entity”) in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

- (ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

and, for the purposes of the Proposed Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time.

(iii) Maximum number of Shares

- (aa) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company (or any of its subsidiaries) in issue from time to time. No Option may be granted under any schemes of the Company (or any of its subsidiaries) if this will result in such limit being exceeded.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Proposed Share Option Scheme and any other share option scheme of the Group) to be granted under the Proposed Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Proposed Share Option Scheme (“General Scheme Limit”).
- (cc) Subject to (aa) above and without prejudice to (dd) below, the Company may, after issuing a circular to its shareholders, seek approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Proposed Share Option Scheme and any other share option scheme of the Group) previously granted under the Proposed Share Option Scheme and any other share option scheme of the Group will not be counted.
- (dd) Subject to (aa) above and without prejudice to (cc) above, the Company may issue a circular to its shareholders and seek separate shareholders’ approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by the Company before such approval is sought.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Proposed Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being (“Individual Limit”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be subject to the issue of a circular to the shareholders and the shareholders’ approval in general meeting of the Company with such participant and his associates (as defined under the Listing Rules) abstaining from voting.

(v) Grant of options to connected persons

(aa) Any grant of options under the Proposed Share Option Scheme and any other schemes to a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined under the Listing Rules) must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by shareholders of the Company. The Company must send a circular to the shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates must be approved by the shareholders of the Company in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Proposed Share Option Scheme at any time during a period to be determined and notified by the Directors at the time of such grant to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Proposed Share Option Scheme can be exercised.

(viii) Subscription price for Shares

The subscription price for Shares under the Proposed Share Option Scheme shall be a price determined by the Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

(aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

(bb) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(x) Restrictions on the time of grant of options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspapers. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Directors for the approval of the Company's interim or annual results, and (ii) the last date on which the Company must publish its interim or annual results announcement under its listing agreement, and ending on the date of the announcement of the results, no option may be granted.

The Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(xi) Period of the Proposed Share Option Scheme

The Proposed Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Proposed Share Option Scheme becomes unconditional.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in

whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (i) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; and (ii) the option granted to the grantee under the Proposed Share Option Scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer). Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xvii) Rights on winding up

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all

applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Proposed Share Option Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his option, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the Shares in issue on the day prior to the date of such resolution.

(xviii) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the Proposed Share Option Scheme and the option so far as unexercised and/or the option price and/or the method of exercise of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xix) Cancellation of options

Any cancellation of options granted but not exercised must be approved by shareholders of the Company in general meeting, with participants and their associates abstaining from voting. Where the Company cancels options and issues new ones to the same option holder, the grant of such new options may only be made under a scheme with available unissued options (excluding the cancelled options) within the General Scheme Limit or the limits approved by the shareholders of the Company.

(xx) Termination of the Proposed Share Option Scheme

The Company may by resolution in general meeting at any time terminate the Proposed Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Proposed Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Proposed Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Proposed Share Option Scheme.

(xxi) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable save as provided under the rules of the Proposed Share Option Scheme.

(xxii) Others

(aa) The terms and conditions of the Proposed Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the shareholders in general meeting.

(bb) Any alterations to the terms and conditions of the Proposed Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the shareholders of the Company in general meeting, except where the alterations take effect automatically under the existing terms of the Proposed Share Option Scheme.

(cc) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Proposed Share Option Scheme shall be approved by the shareholders of the Company in general meeting.

OTHER INFORMATION

13. Estate duty and tax indemnity

Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya have entered into a deed of tax indemnity dated 15th November, 1999 (“Deed of Tax Indemnity”) in favour of the Group to provide indemnities in favour of the Group on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance) to any member of the Group on or before the date of the Deed of Tax Indemnity. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, the British Virgin Islands and the PRC.

Under the Deed of Tax Indemnity, Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya have also given indemnities in favour of the Group on a joint and several basis in relation to, among other things, taxation which might be payable by any member of the Group in respect of any income, profits, gains earned, accrued or received on or before the date of the Deed of Tax Indemnity, save where provision has been made for such taxation in the combined audited accounts of the Group for the period ended 30th June, 1999, where any claim has arisen because of the voluntary act or omission of any member of the Group or where any claim arises as a result of any retrospective change in the relevant law or practice of the relevant tax authority.

14. Litigation

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

15. Sponsor

ICEA, together with the Company, has made an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, and Shares which may fall to be issued upon the exercise of options which may be granted under the Proposed Share Option Scheme on the Stock Exchange.

16. Expenses

The estimated expenses in respect of the listing by way of introduction are approximately HK\$7,000,000 and are payable by the Company.

17. Qualifications of experts

The qualifications of the experts who have given their opinion which is contained in this document are as follows.

Name	Qualification
ICEA	Registered dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Arthur Andersen & Co	Certified public accountants
Charles Chan, Ip & Fung CPA Ltd.	Certified public accountants
Sallmanns (Far East) Limited	Chartered surveyors
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
GFE Law Office	PRC lawyer

18. Consents of experts

ICEA, Arthur Andersen & Co, Charles Chan, Ip & Fung CPA Ltd., Sallmanns (Far East) Limited, Conyers Dill & Pearman, Cayman and GFE Law Office have given and have not withdrawn their respective written consents to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

19. Taxation of holders of Shares**(a) Hong Kong**

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

(b) *Cayman Islands*

Under the present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

(c) *Professional tax advice recommended*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Introduction can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

20. Miscellaneous

(a) Save as disclosed herein:

- (i) within the two years preceding the date of this document, no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash, and no commission, discount, brokerage or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(b) The Company has no founder shares, management shares or deferred shares.

(c) No major change in the nature of the business of the Group is being contemplated by the Directors following the listing of the Shares on the Stock Exchange.

21. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Freshfields Bruckhaus Deringer, 11th Floor, Two Exchange Square, Central, Hong Kong during normal business hours up to and including 29th December, 2001:

- (a) the memorandum of association of the Company and the Articles of Association;
- (b) the accountants' report on the Group prepared by Arthur Andersen & Co and Charles Chan Ip & Fung CPA Ltd., the texts of which are set out in Appendix I;
- (c) the letter, summary of value and valuation certificate prepared by Sallmanns (Far East) Limited, the texts of which is set out in Appendix II;
- (d) the rules of the Share Option Scheme;
- (e) the rules of the Proposed Share Option Scheme;
- (f) the Companies Law;
- (g) the letter prepared by Conyers Dill & Pearman, Cayman summarising certain aspects of Cayman Islands company law as referred to in paragraph 4 headed "General" in Appendix III;
- (h) the service contracts of the Directors referred to in paragraph 10 of the section headed "Further Information about the Directors, Senior Management and Staff" of Appendix IV;
- (i) the material contracts referred to in paragraph 7 of the section headed "Further Information about the Business of the Group" of Appendix IV including, where appropriate, certified English translations thereof; and
- (j) the written consents of experts referred to in paragraph 18 of the section headed "Other Information" of Appendix IV.