INTRODUCTION

Indonesia is currently the third largest producer of cocoa beans in the world. Capitalising on the abundant supply of quality cocoa beans in Indonesia, the Group has established itself as a major exporter of cocoa beans in terms of trading volume in Indonesia. According to INCA, for the year ended 31st December, 2002, the Group was the fourth largest exporter of cocoa beans in Indonesia. For each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, the volume of cocoa beans exported by the Group amounted to approximately 16,380 tonnes, 23,920 tonnes and 24,470 tonnes, respectively, while the Group's turnover was approximately HK$145.2 million, HK$300.9 million and HK$352.0 million, respectively. The Group's products are one of the major raw materials used for the manufacture of a variety of food products including chocolate, beverages and cakes, and various pharmaceutical and cosmetic products such as soaps and moisturising creams.

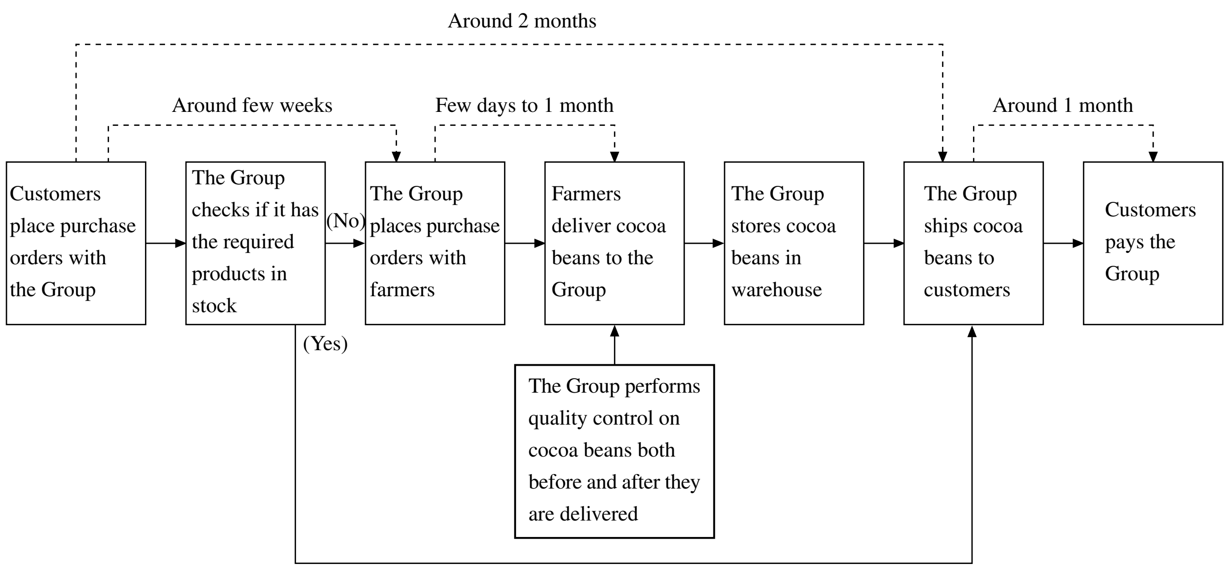
Since January 2001, the Group has ceased sales to the domestic market and focused only on the export market. The Group currently sells its products to four established importers in Europe, namely Unicom in the Netherlands, ICBT in the UK, Orebi in France and Westermann in the Netherlands, who resell the products to other cocoa bean trading companies and cocoa processing and/or manufacturing companies in the US. In October 2002, the Group entered into the Sales Agreements with each of Unicom, ICBT and Westermann whereby these customers agreed to purchase an annual minimum of 12,000 tonnes, 9,000 tonnes and 7,000 tonnes of cocoa beans, respectively, from the Group for an initial term of three years. By the first anniversary of their respective Sales Agreements in October 2003, Unicom, ICBT and Westermann have respectively ordered approximately 16,600 tonnes, 12,700 tonnes and 10,100 tonnes of cocoa beans from the Group, which have exceeded their respective annual commitments under the Sales Agreements by approximately 38.3%, 41.1% and 44.3%.

For each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, the Group sourced all of its cocoa beans directly from over 600, 800 and 1,100 farmers in Sulawesi, respectively. Sourcing from a diversified base of farmers allows the Group to: (i) better control the quality and price of its purchases; (ii) maintain a stable and reliable supply of its products; and (iii) increase its efficiency and cost effectiveness without going through intermediaries. The Directors consider that there are many farmers in Indonesia that can supply cocoa beans to the Group that meet its requirements. The Group has maintained good relationships with farmers and selects its suppliers based mainly on the availability of the cocoa beans that meet the quality and quantity as required by the Group.

The Group is one of the few purchasers in Indonesia which can provide farmers with a 50% advance payment for the purchase of cocoa beans. This is very important in dealing with the farmers since they will sell the better quality cocoa beans from their harvest and at a more competitive price to purchasers which can provide a meaningful advance payment. Given that the Group is one of the major exporters of cocoa beans in Indonesia and that it is able to provide farmers with an advance payment and place large purchase orders, the Group is able to source cocoa beans from farmers at more competitive prices.

The Group distinguishes itself from other cocoa bean traders in Indonesia by maintaining good relationships with farmers through the provision of certain value-added services. The Group provides farmers, on an informal basis, with general information on the cocoa market, such as the customers' forecast demand for cocoa beans and feedback on the quality of the cocoa beans supplied by the farmers. In addition, the Group also assists farmers on an informal basis in improving the yield and quality of their cocoa bean harvests by arranging education and training sessions for the farmers on topics such as improved farming, harvesting and after-harvesting work methods including fermentation and drying techniques.

The following diagram summarises the Group's operations, further details of which are set out under the paragraphs headed "Sales and marketing", "Sourcing", "Inventory" and "Quality control" below:



PRINCIPAL STRENGTHS

Major player in the cocoa bean trading industry in Indonesia

The Group has established itself as a major exporter of cocoa beans in terms of trading volume in Indonesia. According to INCA, for the year ended 31st December, 2002, Nataki was the fourth largest exporter of cocoa beans in Indonesia, accounting for approximately 6.1% of the country's total export volume of cocoa beans for that year. On the basis that the Group's sales continue to increase and the Group has entered into the Sales Agreements in October 2002, the Directors believe that the Group will continue to be one of the largest exporters of cocoa beans in Indonesia in the foreseeable future. As the Group is one of the major exporters of cocoa beans in Indonesia and it is able to provide farmers with an advance payment, the Group is able to source cocoa beans from farmers at competitive prices.

Ability to source and sell cocoa beans at competitive prices

The Group is one of the few purchasers in Indonesia which provides farmers with a 50% advance payment for the purchase of cocoa beans. This is very important in dealing with the farmers since they will sell the better quality cocoa beans from their harvest and at a more competitive price to purchasers which can provide a meaningful advance payment. In addition, the Directors believe that the Group's ability to place large orders with farmers also enables the Group to obtain more competitive prices from the farmers. By purchasing quality cocoa beans at competitive prices, the Group can offer its export customers, all of whom are established cocoa product suppliers in Europe, export quality cocoa beans at attractive prices. The Directors believe that this is very important to overseas customers as they source cocoa beans all over the world.

Good and stable relationships with a diversified base of farmers

The Group has been sourcing cocoa beans directly from farmers in Sulawesi, Indonesia, since the beginning of 2001. For each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, the Group sourced from over 600, 800 and 1,100 farmers, respectively. The Directors consider that there are many farmers in Indonesia that can supply the cocoa beans to the Group that meet its requirements. Having direct access to such a diversified base of farmers allows the Group (i) to better control the quality and price of its purchases; (ii) to maintain a stable and reliable supply of its products; and (iii) to increase its efficiency and cost effectiveness without going through intermediaries. The Group has not experienced any difficulty in sourcing cocoa beans during the Track Record Period and does not expect any such difficulty in the foreseeable future. The Group's ability to make advance payments and place large orders enhances relationships between the Group and the farmers. Furthermore, the Group also maintains good relationships with the farmers through the provision of certain value-added services. The Group provides farmers, on an informal basis, with general information on the cocoa market. Further, the Group assists farmers on an informal basis in improving the yield and quality of their cocoa bean harvests by arranging education and training sessions for the farmers on topics such as improved farming, harvesting and after-harvesting work methods including fermentation and drying techniques. The good and stable relationships with a diversified base of farmers allows the Group to source products with the required quantity and quality that meet customers' requirements.

Good and stable relationships with customers

The Group has maintained good and stable relationships with its overseas customers since it commenced business with them. Such good relationships have been evidenced by the Sales Agreements entered into between the Group and three of its customers, whereby these customers have agreed to purchase an aggregate annual minimum amount of 28,000 tonnes of cocoa beans from the Group for an initial term of three years commencing from October 2002. In addition, the Group has not experienced any customers' complaints or returned sales during the Track Record Period. The Directors believe that the Group's ability to provide its customers with export quality cocoa beans at attractive prices and its ability to provide quality, reliable service to these customers are very important since these customers are established cocoa product suppliers in Europe which source cocoa beans all over the world.

Stringent quality control systems

The Group's quality control staff are involved in performing on-site quality control inspections of the cocoa beans purchased at the farmers' warehouses. The Group's quality control staff also undertake regular quality control inspections at the Group's own warehouse and before shipment of products to customers. The Directors believe that the adoption of these stringent quality control procedures ensure that the quality of the cocoa beans sourced from the farmers meets the customers' requirements. During the Track Record Period, the Group did not experience any customers' complaints or returned sales.

Strong industry background of the senior management team

Mr. Judianto, Mr. Herkiamto and Mr. Zulfian have an average of over nine years of experience in the cocoa industry and possess good relationships with both customers and suppliers of cocoa beans. Their relationships and knowledge in the cocoa bean industry has enabled the Group to rapidly increase its sales and profitability. The Directors believe the Group can leverage on the expertise and business relationships of its senior management team to further develop its sales to existing customers and to diversify its customer base in both the overseas and domestic markets.

PRICING

Both the sale and purchase prices of the Group's cocoa beans are determined with reference to, amongst other things: (i) the prevailing US dollar-denominated prices as quoted on the NYCSCE, (ii) the ability to provide farmers with meaningful advance payments; (iii) the climate in Indonesia since this affects the supply and quality of the cocoa crop; and (iv) the size of the purchase. Both the sale and purchase prices are determined at the time when purchases are placed by the Group's customers with the Group, and the Group with the farmers, respectively. Since Indonesia is one of the largest suppliers of cocoa beans in the world and there are abundant supplies of cocoa beans in Indonesia, local purchasers and local sellers must consider the domestic market's supply and demand in addition to NYCSCE's price in setting prices. Accordingly, the price of cocoa beans in Indonesia generally fluctuates in the same direction as the price of coca beans quoted on the NYCSCE, but not necessarily to the same extent given the domestic market's supply and demand situation. Given that the Group is one of the major exporters of cocoa beans in Indonesia, generally provides farmers with an advance payment of approximately 50% of the purchase amount and makes large purchases, the Group has been able to source cocoa beans from farmers at competitive prices which are normally at a significant discount to the reference prices as quoted on the NYCSCE.

The Group's customers generally place purchase orders approximately two months before the designated delivery time. Following receipt of the orders from customers, the Group will source from farmers to fulfil customers' requirements if such orders are not covered by the inventory maintained by the Group. Normally, inventory on-hand is insufficient to fulfill all of the customer's purchase order and the Group will source the cocoa beans from the farmers within a few weeks after receiving the customer's purchase order. Because there is a time lag of a few weeks between the time when the customer places the purchase order to the Group and the Group places the purchase orders to the farmers, the Group is subject to risks arising from fluctuations in cocoa bean prices within these few weeks. In addition, since farmers quote prices to the Group with reference to, amongst other things, the prices quoted on the NYCSCE, and the Group quotes prices to its customers, amongst other things, with reference to the prices quoted on the NYCSCE, the Group effectively earns a margin between the quoted prices, and the absolute amount of the Group's gross profit and hence its profitability will increase as prices of cocoa beans quoted on the NYCSCE increase (and vice-versa), all other factors being equal.

PRODUCTS

The Group sells cocoa beans which have been fermented and dried. Cocoa beans are one of the major raw materials used for the manufacture of a variety of food products including chocolate, beverages and cakes, and various pharmaceutical and cosmetic products such as soaps and moisturising creams. Since early 2001, the Group has only sold to export customers. The export-quality cocoa bean sold by the Group are generally characterised by the larger size, higher level of fat and water content, less insect damage, and better general appearance relative to the cocoa beans which are sold domestically for domestic consumption. Export-quality cocoa beans sold by the Group are homogeneous with cocoa beans sold by other Indonesian suppliers for the export market. The Directors believe that the Group's products have been able to meet the quality requirements of its customers as a result of the stringent quality control procedures applied to the Group's purchases.

SALES AND MARKETING

The Group has established itself as a major exporter of cocoa beans in terms of trading volume in Indonesia. According to INCA, for the year ended 31st December, 2002, Nataki was the fourth largest exporter of cocoa beans in Indonesia, accounting for approximately 6.1% of the country's total export volume of cocoa beans for that year. Given that the Group's sales continue to increase since its establishment in December 1999 and the Group has entered into the Sales Agreements, the Directors believe that the Group will continue to be one of the largest exporters of cocoa beans in Indonesia in the foreseeable future.

As at 31st August, 2003, the Group had a sales and marketing team comprising 19 staff. The sales and marketing team maintains close contact with its customers, from whom they collect the latest market information and provide it to the farmers through other departments of the Group (further details of which are set out under the paragraph headed "Sourcing" below). The Directors believe this assists the Group in enabling it to source from farmers the products that satisfy customers' requirements.

Since January 2001, the Group has ceased sales to the domestic market and focused only on the export market since overseas customers generally place larger orders. The Group currently sells its products to four established importers based in Europe who resell the products to other cocoa bean trading companies and cocoa processing and/or manufacturing companies in the US. The following table sets out the name, location, and contribution to the Group's turnover by each of these four customers during the Track Record Period:

		Contribution to the Group's turnover		
Name	**Location**	**For the year ended 31st December, 2001**	**For the year ended 31st December, 2002**	**For the eight months ended 31st August, 2003**
Unicom	The Netherlands	37.1%	37.4%	38.8%
ICBT	UK	31.7%	32.8%	26.9%
Orebi	France	31.2%	21.1%	11.3%
Westermann *(Note)*	The Netherlands	—	8.7%	23.0%
		100.0%	100.0%	100.0%

Note: The Group commenced sales to Westermann in October 2002.

Unicom, established in 1991 and based in the Netherlands, trades cocoa beans and other cocoa-related products such as cocoa butter and cocoa powder. It is a member of the FCC and CMAA. Unicom sources cocoa beans from Indonesia, Cote d'Ivoire, Ghana, Nigeria, Brazil and Cameroon and sells cocoa-related products to Europe, US, Russia and Estonia. The Group has supplied cocoa beans to Unicom since November 2000 and there have been 12, 18 and 17 transactions with Unicom for each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, respectively. The Group has not made any bad and doubtful debt provisions for sales to Unicom during the Track Record Period.

ICBT, established in 1989 and which has offices in England and Singapore, is a member of the CMAA. ICBT sources cocoa beans from Indonesia, Cote d'Ivoire, Ghana, Negeria and Cameroon for sale in European countries, US and Russia. The Group has supplied cocoa beans to ICBT since November 2000 and there have been 10, 14 and 14 transactions with ICBT for each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, respectively. The Group has not made any bad and doubtful debt provisions for sales to ICBT during the Track Record Period.

Orebi is an associate company of Orebi & Cie. Orebi & Cie was set up in 1985 with offices in France and Singapore and is a member of the FCC. Mr. S Orebi of Orebi & Cie is the chairman of the FCC's council. Orebi & Cie sources cocoa beans from Indonesia, Ghana, Nigeria, Brazil and the Cote d'Ivoire for sale to customers all over the world, but mainly to the Netherlands, UK and US. The Group has supplied cocoa beans to Orebi since November 2000 and there have been 10, 11 and 8 transactions with Orebi for each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, respectively. The Group has not made any bad and doubtful debts provision for sales to Orebi during the Track Record Period.

Westermann, a trading company established in 1991 and based in the Netherlands, is a member of the FCC. It sources cocoa beans from Indonesia, Cote d'Ivoire and Ghana for sale to Europe, US and Russia. The Group has supplied cocoa beans to Westermann since October 2002 and there have been 4 and 13 transactions with Westermann for the year ended 31st December, 2002 and the eight months ended 31st August, 2003, respectively. The Group has not made any bad and doubtful debts provision for sales to Westermann during the Track Record Period.

To ensure a continuous flow of business from its customers, in October 2002 the Group entered into the Sales Agreements with each of Unicom, ICBT and Westermann for an initial term of three years. Under these Sales Agreements, each of Unicom, ICBT and Westermann agreed to purchase from the Group a minimum amount of cocoa beans every year. The Sales Agreements were entered into between the Group and the three customers for the purpose of formalising the relationships between them and to ensure a continuous flow of business from the customers. The annual minimum purchase amount was determined based on the projected purchases of each of the three customers for the next three years.

Details of the Sales Agreements are summarised as follows:

Name	**Annual minimum amount of cocoa beans to be purchased under the Sales Agreements** *(tonnes)*	**Actual amount of cocoa beans purchased in the first year**	**Initial term**	**Expiration date of initial term**	**Renewal**
Unicom	12,000	16,560	3 years	October, 2005	Automatic renewal for successive periods of three years unless terminated
ICBT	9,000	12,680	3 years	October, 2005	Automatic renewal for successive periods of three years unless terminated
Westermann	7,000	10,140	3 years	October, 2005	*Note*

Note: Terms for renewal are not specifically provided in the Sales Agreement entered into between the Group and Westermann and will be subject to mutual agreement between the parties.

Pursuant to the Sales Agreements, the price of each purchase shall be fixed by mutual agreement between the Group and the respective customer. Each customer is required to purchase the minimum amount stated in its respective Sales Agreement insofar as the Group can reasonably supply such amount. The Directors do not believe the Group will have any problems sourcing cocoa beans to meet the minimum purchase amount under the Sales Agreement since the Group has never experienced any problems sourcing cocoa beans and there is an abundant supply of farmers which can supply such cocoa beans. **Although there is no provision providing for any specified remedies in respect of failure to meet the annual minimum purchase requirements by the customers, the Group can take legal action against the customer in accordance with the terms and conditions of the Sales Agreements.** In any event, the Directors believe that these customers will meet the minimum purchase amounts under the Sales Agreements given the increase in tonnes of cocoa beans sold to these customers during the Track Record Period. By the first anniversary of their respective Sales Agreements in October 2003, Unicom, ICBT and Westermann have respectively ordered approximately 16,600 tonnes, 12,700 tonnes and 10,100 tonnes of cocoa beans from the Group, which have exceeded their respective annual commitments under the Sales Agreements by approximately 38.3%, 41.1% and 44.3%. As acknowledged by the Group's customers, sales to each of these customers during the Track Record Period only represented a small portion of their annual purchases during that period and the Directors believe that the Group will be able to increase sales to these customers and achieve a larger share of their purchases in the future given that they are established cocoa suppliers in Europe which source cocoa beans from all over the world.

The Group intends to expand its sales to its existing customers and into the domestic market and diversify its customer base in both overseas and domestic markets. Sales to each of the existing customers only accounted for a small portion of the respective total purchases of cocoa beans of these customers during the Track Record Period since they purchase cocoa beans from a number of major cocoa beans producing countries. The Directors are confident that the Group will be able to increase sales to its existing customers and achieve a larger share of their cocoa bean purchases in the future since not only can it provide its customers with export-quality cocoa beans at attractive prices but also provide quality, reliable service to these customers which are very important since these customers are established cocoa product suppliers in Europe. The Group's ability to sell more cocoa beans to these customers is already evident since the volume of cocoa beans sold to these customers have increased from 16,380 tonnes for the year ended 31st December, 2001 to 23,920 tonnes for the year ended 31st December, 2002 and to 24,470 tonnes for the eight months ended 31st August, 2003. In addition, the Group will increase its sales and marketing activities in order to secure new customers from both domestic and overseas markets.

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors, their respective associates or Shareholders who owned more than 5% of the issued share capital of the Company had any interest in any of the Group's customers during the Track Record Period.

All of the Group's shipments of cocoa beans are made on a "free-on-board" basis to the shipping point. Under this arrangement, the Group's customers are responsible for the costs of the shipment and insurance in connection with the transportation of cocoa beans from the shipping point in Sulawesi, Indonesia to the destination designated by the customers. In addition, the customers also bear the risk of loss and damage to the cocoa beans during transportation from the shipping port in Indonesia to its destination. This arrangement allows the Group to minimise its transportation and insurance costs.

All of the Group's sales are denominated in US dollars. Customers normally expect shipment to take place two months after the order is placed. Customers are normally required to pay the Group within one month following shipment of the goods. For each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, the average debtors' turnover period of the Group was approximately 24, 34 and 37 days, respectively. There has not been, and the Group has not made any provisions for, any bad and doubtful debts during the Track Record Period. All trade debts from these customers at 31st August, 2003 were fully settled by the end of September 2003. The Group has also not experienced any customers' complaints or returned sales during the Track Record Period.

SOURCING

The Group has been sourcing cocoa beans directly from farmers in Sulawesi, Indonesia, since the beginning of 2001. For each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, the Group sourced from over 600, 800 and 1,100 farmers, respectively. Having direct access to such a diversified base of farmers allows the Group: (i) to better control the quality and price of its purchases; (ii) to maintain a stable and reliable supply of its products; and (iii) to increase its efficiency and cost effectiveness without going through intermediaries. The Directors consider that there are many farmers in Indonesia that can supply to the Group the cocoa beans that meet the Group's requirements. As a result, the Group has not experienced any difficulty in sourcing cocoa beans during the Track Record Period. The Group has maintained good relationships with farmers and select its suppliers mainly based on the availability of the cocoa beans that meet the quality as required by the Group.

The Group is one of the few purchasers which can provide farmers with 50% advance payments for its purchases. This is very important in dealing with the farmers since they will sell the better quality cocoa beans from its harvest and at more competitive prices to purchasers which can provide meaningful advance payments. In addition, the Group distinguishes itself from other cocoa bean traders in Indonesia by maintaining good relationships with farmers through the provision of certain value-added services which include:

1. providing farmers, on an informal basis, with general information on the cocoa market, such as the customers' forecast demand for cocoa beans and feedback on the quality of the cocoa beans supplied by the farmers; and

2. assisting farmers on an informal basis in improving the yield and quality of their cocoa bean harvests by arranging education and training sessions for the farmers on topics such as improved farming, harvesting and after-harvesting work methods including fermentation and drying techniques.

There are generally two harvest periods for cocoa beans produced in Indonesia: (i) March to July; and (ii) September to December. Cocoa beans generally have a maximum storage life of approximately five months under normal conditions and this allows farmers in Sulawesi to maintain stocks of cocoa beans in their warehouses between the two harvest periods.

During the Track Record Period, the Group's five largest suppliers accounted for less than 3% of the Group's total purchases. To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors, their respective associates or Shareholders who owned more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers of the Group during the Track Record Period.

All of the Group's purchases are denominated in IDR and made on a cash basis. When the Group began sourcing directly from farmers in 2001, the Group generally paid the farmers upon receipt of cocoa beans. In 2002, the Group normally provides farmers with an advance payment of approximately 50% of the purchase amount when the purchase order is made, with the balance settled upon delivery. The Group has not experienced any failure by the farmers to deliver the cocoa beans purchased by the Group following the payment of the 50% advance payment during the Track Record Period. Delivery of the cocoa beans from the farmers usually occurs within approximately a few days to one month following the placement of purchase orders by the Group. In the event that the Group places a purchase order with the farmers for immediate delivery and the farmers have the required cocoa beans readily available, all payments will be due upon delivery of the products and there will be no advance payment required. The Group has not experienced any disputes in relation to payments or delivery with farmers during the Track Record Period.

FLUCTUATIONS OF EXCHANGE RATES

The Group's sales are denominated in US dollars while its purchases are denominated in IDR. The Group's customers generally place purchase orders in US dollars approximately two months before the designated shipment time. Following receipt of the orders from customers, the Group will source from farmers to fulfil customers' requirements in IDR if such orders are not covered by the inventory maintained by the Group. Normally, inventory on-hand is insufficient to fulfill all of the customer's purchase order and the Group will source the cocoa beans from the farmers within a few weeks after receiving the customer's purchase order. Farmers normally deliver the cocoa beans to the Group within a few days to a month after the Group place the purchase orders with them. Cocoa beans are stored in the Group's warehouse following delivery by the farmers until they are shipped to the customers at the designated shipment time as specified in the customers' purchase orders. The Group then receives payment from the customers approximately one month after the goods are shipped. Because there is a time lag between the time the Group pays for the goods in IDR and the time when the Group receives its US dollar receipts, the Group is subject to risks arising from the fluctuations in the IDR/US dollar exchange rate.

The financial statements of Nataki are prepared in IDR which is also its functional currency. Should the US dollar appreciate or depreciate against the IDR, the Group will realise an exchange gain or exchange loss, respectively. According to the IDR/US dollar exchange rates quoted by Bank Indonesia (Central Bank of Republic of Indonesia), the IDR/US dollar exchange rates fluctuated significantly during the Track Record Period. IDR depreciated against the US dollar from approximately 9,450 to approximately 11,675 during the period from January to April 2001 and rebounded to approximately 8,865 by August 2001. Since then, the depreciation of IDR against US dollar resumed and the IDR/US dollar exchange rate settled at approximately 10,400 at the end of 2001. During the first half of 2002, IDR appreciated against the US dollar from approximately 10,400 to approximately 8,730. Thereafter, no significant fluctuation occurred during the second half of 2002. During the eight months ended 31st August, 2003 and the IDR/US dollar exchange rate ranged between approximately 9,200 and 8,200, and settled at approximately 8,535 as at 31st August, 2003.

For each of the two years ended 31st December, 2002 and the eight months ended 31st August, 2003, the Group's exchange loss from trading operations was approximately HK$1.2 million, HK$3.5 million and HK$3.1 million, respectively, representing approximately 0.8%, 1.2% and 0.9% of the Group's turnover, and approximately 1.0%, 1.5% and 1.1% of the Group's cost of sales, respectively. During the Track Record Period, the Group has not entered into any agreement or purchased any instrument to hedge against fluctuations of foreign exchange rates because the cost of the hedging contract is very significant and requires the Group to place a 100% deposit or cash collateral with the bank which the Directors believe is costly and uneconomical to the Group. According to INCA, it is uneconomical and impractical, and thus not common for cocoa bean traders in Indonesia to enter into foreign exchange contracts because banks in Indonesia charge a very high premium and require a large deposit to cover the foreign exchange contract. However, the Group may decide to do so in the future from time to time when the cost of the hedging contract will be less than the potential foreign exchange loss and when the deposit required by the bank is at a level acceptable by the Group.

The Group also had an exchange loss of approximately HK$10.2 million for the year ended 31st December, 2001 as a result of the conversion of the outstanding amount of the US dollar-denominated unsecured loan, in the amount of US$16 million, to IDR in December 2001, and an exchange gain of approximately HK$1.5 million for the year ended 31st December, 2002, as a result of the settlement in September 2002 of the US dollar-interest accrued for the period before the unsecured loan was converted to IDR, details of which are set out in the paragraph headed "Financial resources and working capital" of this prospectus. Since 2003, there has not been and will not be any exchange gain or loss attributable to the loan since the loan has been converted from US dollar to IDR.

INVENTORY

Cocoa beans are perishable goods with a maximum storage life of approximately five months under normal storage conditions. Accordingly, the Group adopts the FIFO method of physical stock control to reduce the risk of perished stock. Under the FIFO method, goods first stored into the warehouse will be the first to be delivered to customers.

The Group's customers generally place purchase orders approximately two months before the designated delivery time. Following receipt of the orders from customers, the Group will source from farmers to fulfil customers' requirements if such orders are not covered by the inventory maintained by the Group. Normally, inventory on-hand is insufficient to fulfill all of the customer's purchase order and the Group will source the cocoa beans from the farmers within a few weeks after receiving the customers' purchase orders. Cocoa beans are stored in the Group's warehouse following delivery by the farmers until they are shipped to the customers. Under this trading pattern, the Group does not normally hold inventory in anticipation of the customers' orders and the inventory holding period represents the time between the delivery of cocoa beans by the farmers to the Group and the shipment by the Group to the customers. The Directors expect that the Group will follow the same trading pattern and inventory policy in the future. During the Track Record Period, the Group's average inventory turnover periods were approximately 19, 26 and 20 days respectively, which are less than the maximum storage period of cocoa beans under normal storage conditions. There has not been, and the Group has not made, any provisions for any obsolete inventory during the Track Record Period.

However, since the Group does not normally hedge against fluctuations of foreign exchange rates during the stock holding period, its gross profit margin will be affected if IDR fluctuates against the US dollar during the stock holding period. For further details of the risks arising from the fluctuations of foreign exchange rates, please refer to the paragraphs headed "Fluctuations of exchange rates" under the section headed "Business" and "Exposure to fluctuations of foreign exchange rates and currency conversion risks" under the section headed "Risk Factors" of this prospectus.

QUALITY CONTROL

The Group has adopted stringent quality control procedures to ensure that the quality of the cocoa beans sourced from the farmers meet the customers' requirements. The Group's quality control staff are involved in performing on-site quality control inspections of the cocoa beans purchased at the farmers' warehouses. The Group's quality control staff also undertake regular quality control inspections at the Group's own warehouse and before shipment of products to customers. In particular, the Group's quality control procedures comprise the following three stages:

Stage 1: Incoming inspection

The cocoa beans are inspected before they are accepted from the farmers. First, the Group's quality control staff will visit the farmers' warehouses to inspect the cocoa beans before they are delivered to the Group's own warehouse. When the cocoa beans arrive at the Group's warehouse, they will be inspected once again. In the event that the cocoa beans do not pass inspection at the Group's warehouse, the Group will reject the order and ask the farmer to replace the order. However, the Directors confirm that the Group has never had a problem with the cocoa beans when they arrive at the warehouse for the second inspection. This dual inspection procedure ensures that all cocoa beans purchased by the Group will meet the customers' requirements.

Stage 2: Storage

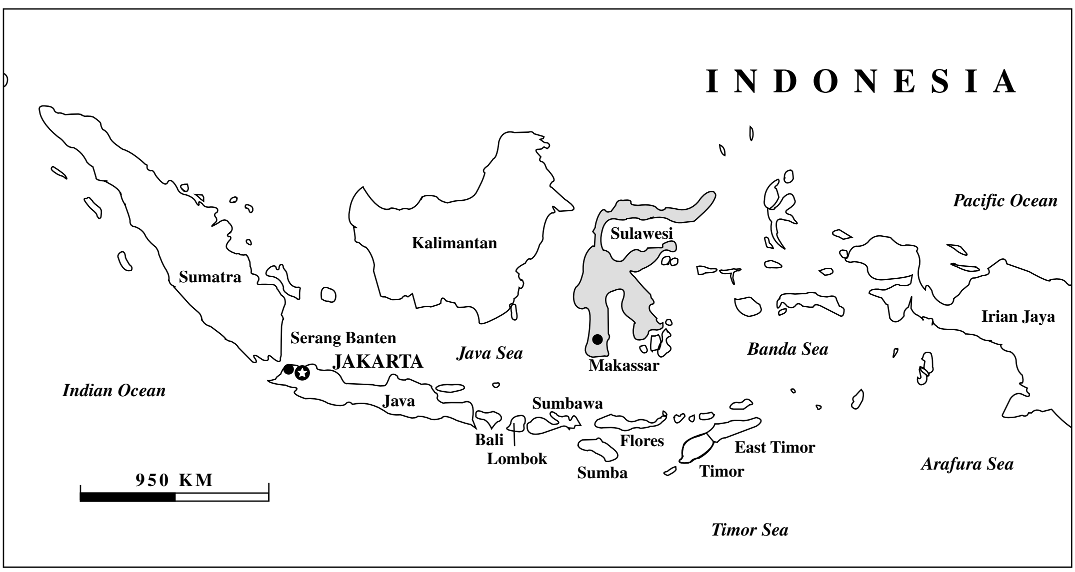
Normally, cocoa beans must be stored under specific conditions in terms of ventilation, room temperature, humidity, exposure to sunlight and certain other room conditions. The Group's quality control staff regularly checks the warehouse conditions in order to maintain the warehouse under the specific conditions suitable for the storage of cocoa beans. In addition, the Group also performs regular fumigation at the warehouse to protect the cocoa beans from damage caused by insects.

In order to facilitate the shipment of its products directly from Sulawesi to overseas customers, the Group stores its inventory in a warehouse in Makassar, Sulawesi rented from an Independent Third Party. The warehouse has a floor area of approximately 4,608 sq.m. and a maximum storage capacity of approximately 5,000 tonnes of cocoa beans. Further details of the warehouse are set out in the paragraph headed "Property Interests" and the section headed "Property Valuation" in Appendix III to this prospectus. In order to enhance the storage conditions of the Group's cocoa beans, the Group plans to acquire or build its own warehouse in Sulawesi. The Directors regard the cocoa trading business as a long term business, therefore it is more appropriate for the Group to own its own warehouse where it can ensure the quality of the warehouse provides proper hygienic and ventilation conditions for the cocoa beans. The planned purchase or construction of a warehouse in Sulawesi is to cater to the overseas customers since the cocoa beans can be transported more efficiently from the farmers to this warehouse in preparation for shipping at the shipping port in Sulawesi. This warehouse will also cater to the future cocoa processing business of the Group.

To cater to the domestic business, the Group plans to purchase or construct a warehouse in Serang, Banten to supply cocoa beans to domestic cocoa trading companies and processing companies which are concentrated around Java. As such, having a warehouse in Serang, Banten will facilitate transportation of cocoa beans to the domestic customers and save transportation costs.

It is expected that the area of each of the two new warehouses in Sulawesi and Serang will be at least equal to or larger than the area of the Group's existing warehouse. The Directors foresee that the Group will maintain its current inventory policy following the acquisition or construction of the new warehouse. However, as the trading volume of cocoa beans increases and the cocoa processing business begins, inventory will increase accordingly and hence require additional storage space.

The following diagram shows the locations of Makassar, Sulawesi and Serang, Java:



Stage 3: Outgoing inspection

The Group's quality control staff inspect the packaging conditions of cocoa beans in accordance with the customers' requirements before deliveries are made to customers.

The Directors believe that the Group's quality control procedures have been effective given that it has not experienced any customers' complaints or returned sales during the Track Record Period.

INSURANCE

The Group currently maintains insurance coverage for its inventory stored at the warehouse. The insurance policy for the Group's inventory covers loss arising from natural disasters and accidents. The total coverage is approximately US$1.5 million. The Directors confirm that, as at the Latest Practicable Date, the Group has not made any insurance claims.

COMPETITION

The international cocoa bean trading industry is competitive with numerous suppliers both locally and in overseas countries. Cocoa bean traders in Indonesia face competition from other traders in Indonesia and from other major cocoa bean exporting countries such as Cote d'Ivoire and Ghana. However, the Directors believe that the Group will be able to maintain its competitive position due to the following reasons:

— the Group has entered into the Sales Agreements with three of its customers to ensure the continuous flow of business from these customers;

— the Group is one of the few purchasers in Indonesia which provide farmers with a 50% advance payment for the purchase. This is very important in dealing with the farmers since they will sell the better quality cocoa beans from its harvest and at a more competitive price to purchasers which can provide a meaningful advance down payment. In addition, the Directors believe that the Group's ability to place large orders with farmers also enables the Group to obtain more competitive prices from the farmers. By purchasing quality cocoa beans at competitive prices, the Group can offer its export customers, all of whom are established cocoa product suppliers in Europe, export-quality cocoa beans at attractive prices. The Directors believe that this is very important to overseas customers as they source cocoa beans from all over the world;

— the Group's senior management team has extensive experience and well established business relationships in the cocoa industry;

— the Group adopts stringent quality control procedures to ensure that the quality of the cocoa beans sourced from the farmers meet the customers' requirements;

— the Group is a major exporter of cocoa beans in Indonesia. According to INCA, for the year ended 31st December, 2002, Nataki was the fourth largest exporter of cocoa beans in Indonesia, accounting for approximately 6.1% of the country's total export volume of cocoa beans for that period;

— the Group maintains close relationships with the farmers by providing value-added services such as providing latest market information on the cocoa industry and providing informal training on farming and harvesting methods;

— Indonesia is currently the third largest producer of cocoa beans in the world and according to INCA, aims to be the largest producer by 2010.

INFORMATION ON DAVOMAS

Davomas, an Indonesian company whose shares are listed on the Jakarta Stock Exchange, is principally engaged in the cocoa processing business in Indonesia and is not engaged in any cocoa bean trading operations. Davomas sources cocoa beans from local cocoa bean trading companies and farmers for processing, and sells semi-processed cocoa products to overseas customers. The Group's customers, namely Unicom, ICBT, Orebi and Westermann (who are large importers of both cocoa beans and cocoa products), are also Davomas' customers. However, the Group sells cocoa beans to these customers while Davomas sells semi-processed cocoa products to these customers. During the Track Record Period, the Group has not made any sales to, or any purchases from, Davomas. None of the Directors, the Investors, Mr. Mulya or any of their respective associates had any interest in Davomas during the Track Record Period. Given that the Group and Davomas are engaged in different businesses, sell different products and have different suppliers, the Directors consider that there exists no direct competition between the Group and Davomas.

As set out under the section headed "Business objectives and implementation plans" below, the Group intends to expand into other cocoa-related business such as cocoa processing operations as part of its strategy to become a leading player in the Indonesian cocoa industry. Mr. Herkiamto, an executive Director, previously also served as the president director of Davomas. In order to avoid potential conflicts of interest, Mr. Herkiamto tendered his resignation from Davomas in October 2003. Mr. Herkiamto's resignation will become official and effective upon expiration of the 90-day notification period required under the constitutional documents of Davomas. Mr. Herkiamto and his associates have no shareholding interests in either Davomas or the Group (except for the options granted to him under the Pre-IPO Share Option Scheme, details of which are set out under the paragraph headed "A summary of the principal terms of the Pre-IPO Share Option Scheme" in Appendix V to this prospectus).

Other than as set out above, none of the Initial Management Shareholder and the Directors have any interest in a business other than the Group's business which competes with or is likely to compete with the Group or which would require disclosure under Rule 11.04 of the GEM Listing Rules.

The executive Directors have undertaken and confirmed that the Group currently has no intention to acquire any interest in Davomas and that the business operations of the Group and of Davomas shall remain separate.