

BUSINESS OBJECTIVES

It is the Group's objective to become a leading player in the Indonesian cocoa industry. 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 have continued to increase since its establishment in December 1999 and the Group 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. To achieve the goal of becoming a leading player in both the export and domestic markets in the Indonesian cocoa industry, the Group intends to expand its sales to existing customers and into the domestic market and also solicit new customers, in both the overseas and domestic markets. Building on its experience in the cocoa bean trading business, the Group intends to diversify into other cocoa-related business, such as cocoa processing operations.

STRATEGIES

Expansion of trading volume

Achieving a larger share of the existing customers' business

The Group's sales to each of its existing customers only accounted for a small portion of the respective total purchases of cocoa beans of these customers during the Track Record Period. Each of these customers purchases cocoa beans from a number of other major cocoa bean producing countries. Given that: (i) the Group has been able to meet these customers' requirements and has not experienced any customers' complaints or returned sales during the Track Record Period; and (ii) three of its customers have committed to purchase an aggregate annual minimum amount of 28,000 tonnes of cocoa beans from the Group under the Sales Agreements, the Directors consider that the Group is well-positioned to strengthen its relationships with these customers and to achieve a larger share of their business.

The Group's sales and marketing department has in the past taken a passive approach by waiting for overseas customers to place orders with the Group. When the overseas customers place orders with the Group, the Group and the customer will then agree on the selling price for that order. However, in order to achieve a larger share of the existing customers' business, the Group intends to: (i) regularly keep the customers abreast of the latest market developments in the Indonesian cocoa industry such as cocoa harvest and pricing information; (ii) adopt a more proactive approach by regularly calling its customers in relation to their purchase requirements; (iii) offer its customers more flexible credit terms; and (iv) consider offering its customers more competitive prices. In addition, the Group will also continue its stringent quality control and delivery systems in order to ensure that the Group can supply its customers with cocoa beans of the required quality and quantity.

Diversifying customer base in both overseas and domestic markets

In the past, the Group has not attended trade shows, exhibitions or conferences relating to the cocoa industry. The Group intends to procure more overseas customers by expanding its sales and marketing team to 25 staff and by attending trade shows, exhibitions and conferences relating to the cocoa industry, especially in the US, which is currently the largest importing region of Indonesian cocoa beans in the world, and in Indonesia. In addition, it will also develop sales in the domestic market by establishing relationships with the other cocoa bean traders and cocoa processing companies in Indonesia through its local sales and marketing team and the contacts and relationships of the senior management and executive Directors. Potential customers in the domestic market to be targeted include other cocoa bean traders and cocoa processing companies.

The development of sales to buyers in the domestic market will allow the Group to earn additional revenue and gain new market share. As the Group has secured a diverse and reliable source of cocoa bean supplies and is now sourcing cocoa beans directly from farmers, rather than through local traders as previously done when it last traded in the domestic market in 2000, the Directors believe that the future profits from domestic trading will be higher than in 2000. In addition, domestic buyers generally buy in smaller quantities than overseas buyers, and are easier to establish relationships with due to their proximity in terms of geographic location.

Expansion into other cocoa-related business

Capitalising on the Group's experience and business relationships in the cocoa industry, the Directors consider that diversifying into other cocoa-related business such as cocoa processing operations would be a natural extension of its existing operations. The Directors consider that the vertical integration of cocoa bean trading and other cocoa-related business such as cocoa processing operations will allow the Group to further establish itself as one of the leading players in the Indonesian cocoa industry. The Group intends to expand into other cocoa-related business through organic growth or, should the appropriate opportunity arise, through strategic merger or acquisition, alliance or other form of cooperation with partners whose strategy is complimentary to the Group's expansion strategy. Although it is the current intention of the Directors that the Group will establish the cocoa processing operations by setting up its own cocoa processing facilities through acquiring the necessary equipment, the Directors do not rule out the possibility of diversifying into cocoa processing operations by way of strategic merger or acquisition, alliance or other form of cooperation with partners whose strategy is complimentary to the Group's expansion strategy should the appropriate opportunity arise. However, no such partner has yet been identified and the Group has not entered into any negotiations in this respect.

The Directors currently intend to set up the cocoa processing operations in Sulawesi to be near the source of cocoa beans and also the new warehouse to be purchased or constructed there (see paragraph headed "Expansion of Warehouse Capacity" below). By (i) leveraging on the Group's position as one of the major exporters of cocoa beans in Indonesia and the strong industry experience and business relationships of Mr. Judianto, Mr. Herkiamto and Mr. Zulfian; and (ii) recruiting a team of staff with the necessary experience in cocoa processing operations, the Directors believe that the Group is well-positioned to expand into cocoa processing operations by either setting up its own

operations, or setting up joint ventures, business co-operation or subcontracting arrangements with, or acquiring interests in, domestic or overseas cocoa processing companies. When the Group expands into cocoa processing operations the Directors intend to employ staff with the necessary experience in cocoa processing.

As part of the implementation plan for expansion into cocoa processing operations, the Group will conduct market research and feasibility studies, including research and studies on the equipment required, suppliers of the required equipment and the markets for cocoa butter and cocoa powder. Acquisition of the equipment and assembling of the cocoa processing operations are expected to commence during the six months ended 30th June, 2004 and complete by 31st December, 2004. The Group intends to set up one production line with an expected processing capacity of an aggregate of approximately 10,000 tonnes of cocoa butter and cocoa powder per year. The necessary equipment includes, amongst other things, a cleaning plant, a winnower, an alkalizing system, a roasting machine, grinders, and a cocoa butter press. Such cocoa processing machinery will require approximately 15,000 to 20,000 sq.m. of factory area.

As part of the market research to be conducted, well-established buyers of semi-processed cocoa products such as cocoa butter and cocoa powder products in Europe and US will be identified and contacted and their requirements as to the potential quantity and quality of the products required will be obtained. Furthermore, additional staff with the relevant experience for establishing and operating the cocoa processing facilities and for the sales and marketing of cocoa butter and cocoa powder will also be recruited. In relation to sales and marketing, the Group intends to: (i) approach its existing customers, namely Unicom, ICBT, Orebi and Westermann to market its semi-processed cocoa products; and (ii) approach the independent organizations such as INCA, FCC and ICCO to obtain information relating to the buyers of such products including their buying patterns and requirements. Based on this information, the Group will identify additional suitable potential customers for its semi-processed cocoa products.

Expansion of warehouse capacity

In order to cope with the anticipated increase in the volume of its trading business, and the demand of cocoa beans from the new cocoa processing operations as set out above and to ensure that its cocoa beans are stored in a warehouse with proper hygienic and ventilation conditions, the Group will require additional and more advanced warehouse facilities for the storage of cocoa beans. The Group intends to increase its warehouse capacity by: (i) purchasing or constructing a warehouse in Sulawesi to replace its existing rented warehouse to cater for the export market and cocoa processing operations, depending on the availability of a suitable warehouse and the cost of purchasing as compared to the cost of constructing a warehouse; and (ii) purchasing or constructing a warehouse in Serang, Banten to cater for the domestic trading business, depending on the availability of a suitable warehouse and the cost of purchasing as compared to the cost of constructing a warehouse.

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The warehouse planned to be purchased or constructed in Sulawesi is to cater to overseas customers since the cocoa beans can be transported more efficiently from the farmers to this warehouse in preparation for shipping at the port in Sulawesi. The warehouse will also supply cocoa beans required for the cocoa processing operations. The Directors envisage this warehouse will be equipped with better facilities than the existing warehouse leased by the Group, including a furnished office, a laboratory, a weight scale for trucks, better lighting, better ventilation, better hygienic conditions and prevention against flooding. The Directors regard cocoa trading and processing as a long-term business, therefore it is more appropriate for the Group to own its own warehouse which provides proper storage conditions for its cocoa beans.

The warehouse planned to be purchased or constructed in Serang, Banten is to cater to domestic cocoa trading companies and processing companies, which are concentrated in Java, and will assist the Group to developing sales in the domestic market. Having a warehouse in Serang, Banten will facilitate transportation of cocoa beans to these 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 (which has a floor area of approximately 4,608 sq.m.). The warehouse in Sulawesi and in Serang, Banten are expected to be completed by the end of 2004 and 2005, respectively. The expected completion time of the warehouse in Sulawesi is intended to match with that of the Group's expansion into cocoa processing operations, which are also expected to be completed by the end of 2004. Before the warehouse in Serang, Banten is completed, the Group will temporarily use the warehouse in Sulawesi to cater to domestic trading of cocoa beans.

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IMPLEMENTATION PLANS

In light of the Group's business strategies as stated above, the Group has formulated the following business plan to implement the strategies in the time periods as set out below. Given that the Group operates in a dynamic market subject to rapid change in the global environment and in particular changes in cocoa prices, which are difficult to predict and which are beyond the Group's control, the plan being set out only reflects the present intentions of the Group and may be adjusted in the future to meet changes in market conditions.

	Period I Latest Practicable Date to 31st December, 2003 (HK\$'000)	Period II Six months ended 30th June, 2004 (HK\$'000)	Period III Six months ended 31st December, 2004 (HK\$'000)	Period IV Six months ended 30th June, 2005 (HK\$'000)	Period V Six months ended 31st December, 2005 (HK\$'000)	Total (HK\$'000)
Expansion of trading volume						
Marketing and promotional activities		- expand sales and marketing team from 19 to 22 staff	- expand sales and marketing team from 22 to 25 staff		- attend trade shows, exhibitions and conferences relating to the cocoa industry, especially in the US	- attend trade shows, exhibitions and conferences relating to the cocoa industry, especially in the US
		- direct marketing to both overseas and domestic cocoa trading companies	- direct marketing to both overseas and domestic cocoa trading companies	- direct marketing to both overseas and domestic cocoa trading companies	- direct marketing to both overseas and domestic cocoa trading companies	
		150	150	150	150	600

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Period I Latest Practicable Date to 31st December, 2003 (HK\$'000)	Period II Six months ended 30th June, 2004 (HK\$'000)	Period III Six months ended 31st December, 2004 (HK\$'000)	Period IV Six months ended 30th June, 2005 (HK\$'000)	Period V Six months ended 31st December, 2005 (HK\$'000)	Total (HK\$'000)
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Expansion into other cocoa-related business

1. Conduct market research and feasibility studies	- conduct research and studies on the equipment required, suppliers of the equipment and the markets for cocoa butter and cocoa powder				100
2. Construct factory and establish operations	- commence construction of cocoa processing factory	- complete construction of cocoa processing factory			
	8,700	4,400			
	- acquire equipment	- complete assembling of the cocoa processing operation			
	- commence assembling the cocoa processing operation	- commence production			
	19,600	29,400			62,100
3. Marketing and promotional activities	- direct marketing to cocoa products manufacturing companies	- direct marketing to cocoa products manufacturing companies	- direct marketing to cocoa products manufacturing companies	- direct marketing to cocoa products manufacturing companies	500
	125	125	125	125	

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Period I Latest Practicable Date to 31st December, 2003 <i>(HK\$'000)</i>	Period II Six months ended 30th June, 2004 <i>(HK\$'000)</i>	Period III Six months ended 31st December, 2004 <i>(HK\$'000)</i>	Period IV Six months ended 30th June, 2005 <i>(HK\$'000)</i>	Period V Six months ended 31st December, 2005 <i>(HK\$'000)</i>	Total <i>(HK\$'000)</i>
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Expansion of warehouse capacity

1. Purchase or construct warehouse in Sulawesi	- search for a suitable warehouse or location for constructing a warehouse	- complete the purchase or construction of the warehouse 5,900		- commence the purchase or construction of the warehouse		
	11,800				17,700	
2. Purchase or construct warehouse in Serang in Banten			- search for a suitable warehouse or location for constructing a warehouse	- complete the purchase or construction of the warehouse		
			3,300			
			- commence the purchase or construction of the warehouse			
			6,600		9,900	
Total	<u>—</u>	<u>40,475</u>	<u>39,975</u>	<u>6,875</u>	<u>3,575</u>	<u>90,900</u>

BASES AND ASSUMPTIONS

The Group operates in a rapidly changing industry. There can be no assurance that any of the Directors' view of the market potential of its business and various products will remain unchanged or be realised. Furthermore, there can be no assurance that any general or specific business objectives set out in this section will be attained, realised or remain unchanged over the periods referred to.

The Directors have assessed the potential of the market as identified in the Group's statement of active business pursuits and formulated strategies to achieve the Group's business objectives on the basis of past industry trend, as well as anticipated future growth and expected demand based on the Directors' past experience. The Directors have made the following principal assumptions in making such assessment and formulation:

1. The Group is not materially adversely affected by any of the risk factors set out under the section headed "Risk factors" in this prospectus.
2. The business objectives for each of the specified periods have been stated on the basis that they may have to be revised or adjusted from time to time in light of factors such as changes in market conditions and whether the Group has successfully achieved its stated business objectives in the preceding period or periods. It has also been assumed that the Group does not experience any significant delay in achieving the stated business objectives in any of the specified periods.
3. The Group is not materially and adversely affected by any change in political, legal, fiscal or economic conditions in Indonesia.
4. The demand for the Group's products will be as anticipated by the Directors.
5. Suitable supply of cocoa beans will be available to the Group on terms acceptable to the Group.

REASONS FOR THE PLACING AND THE USE OF PROCEEDS

The Directors believe that the listing of the Shares on GEM will enhance the Group's profile and the proceeds from the Placing will expand its capital base for the Group's future growth and development. The net proceeds from the Placing (assuming that the Over-allotment Option is not exercised) after deduction of the related expenses are estimated to be approximately HK\$94.4 million. The Directors currently intend to use such net proceeds as follows:

- approximately HK\$62.7 million for expanding into other cocoa-related business;
- approximately HK\$27.6 million for increasing the Group's warehouse capacity, of which approximately HK\$17.7 and HK\$9.9 million will be used for acquiring or constructing a warehouse in Sulawesi and at Serang, Banten, respectively;

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- approximately HK\$0.6 million for marketing activities aimed at expanding the Group's trading business; and
- the balance of approximately HK\$3.5 million for additional working capital required for the anticipated increase in business volume of the Group.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds in the amount of approximately HK\$15.6 million. The Directors intend to allocate the additional net proceeds raised from the exercise of the Over-allotment Option in full to the different uses mentioned above on a pro-rata basis.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short term deposits with financial institutions.

The Directors believe that the net proceeds from the Placing together with the Group's internally generated cash flow will be sufficient to finance the Group's business plans up to 31st December, 2005 as described in this section. In the event that any part of the business objectives and future plans of the Group does not materialise or proceed as planned, the Directors will evaluate carefully the situation and may reallocate the intended funding to other business plans and/or to new projects and/or to hold the funds as short term deposits so long as the Directors consider such action to be in the best interests of the Group. Should there be any material modification to the use of proceeds as set out above, the Company will make an announcement to such effect.