RISKS RELATED TO THE GROUP AND ITS BUSINESSES

Reliance on export sales of cocoa beans

All of the Group's turnover was derived from the export sales of cocoa beans during the Track Record Period. Although the Group has entered into the Sales Agreements with each of Unicom, ICBT and Westermann whereby these customers have agreed to purchase from the Group an aggregate annual minimum amount of 34,000 tonnes of cocoa beans for a further term of three years commencing from October 2005 to October 2008, the Group's financial performance may be adversely affected if the Group is unable to source the cocoa beans with the required quantity and quality that meet customers' requirements or the Group is unable to renew the Sales Agreements upon expiration of their terms.

Renewal of permits and business licenses

The Group has obtained all requisite permits and business licenses for the trading of cocoa beans for the export market and wholesale for Indonesian market. The Group, through Nataki, obtained the business licence for export and import of cocoa beans which is valid for 30 years until September 2034. Should the Group be unable to renew the requisite permits and business licences upon their expiration, the Group's operations will be adversely affected.

Limited client base

The Group currently sells its products to five customers: Unicom, ICBT, Westermann, Orebi and Theobroma. To ensure a continuous flow of business from its customers, the Group has entered into the Sales Agreements with each of Unicom, ICBT and Westermann for an initial term of three years commencing from October 2002. These Sales Agreements were renewed in October 2005. Under these Sales Agreements, each of Unicom, ICBT and Westermann has agreed to purchase from the Group a minimum amount of cocoa beans every year. However, as set out under the risk factor "Protection against breach of the Sales Agreements by customers", there is no provision for any specified remedies in respect of failure to meet the annual minimum purchase requirements by the three customers and the Group fails to supply minimum aggregate annual amount of cocoa beans to the customers. 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. The following table sets out the contribution to the Group's sales by each of Unicom, ICBT, Orebi, Westermann and Theobroma during the Track Record Period:

Name	Contribution to the Group's turnover For the year ended 31st December, 2002	2003	2004	Ten months ended 31st October, 2005
	(%)	*(%)*	*(%)*	*(%)*
Unicom	37.4	36.0	29.1	30.0
ICBT	32.8	27.6	26.5	23.4
Orebi	21.1	13.4	13.5	11.6
Westermann *(Note 1)*	8.7	23.0	21.6	20.5
Theobroma *(Note 2)*	—	—	9.3	14.5
	100.0	100.0	100.0	100.0

Notes:

1. The Group commenced sales to Westermann in October 2002.

2. The Group commenced sales to Theobroma in September 2004.

Should any of these five customers cease its business relationship with the Group and the Group be unable to find alternative customers, the profitability of the Group may be adversely affected.

No assurance that cocoa processing operations will be successfully developed

The Group intends to diversify into the cocoa processing operations business and set up in Makassar, Sulawesi in Indonesia. This new business can be leveraging on the Group's position as one of the major exporters of cocoa beans in Indonesia and the industry experience and business relationships of current management.

However, the Group has no previous experience in running a cocoa processing business, therefore there is no assurance that cocoa processing operations undertaken by the Group will lead to any result or can be completed within the anticipated time frame or the cost of such project can be recovered or able to attract sufficient demand for that business. Accordingly, the Group profitability will be adversely affected.

Natural disaster and weather conditions

The Group purchases all of its cocoa beans from farmers in Sulawesi, Indonesia. The supply and the price of Indonesian cocoa beans can be adversely affected by a number of factors outside the control of the Group including, inter alia, drought, floods, diseases, and pests. For the year ended 31st December, 2004, the Group sourced its cocoa beans from over 1,900 farmers. Should Sulawesi be hit by a natural disaster, it is likely that the cocoa plantations in the area would be affected. A prolonged interruption or shortage in the supply of cocoa beans in Sulawesi would have a material adverse effect on the Group's operations.

Harvests of cocoa beans, including the size and quality of the harvest, are affected by weather conditions such as rain and typhoons. Prolonged periods of bad weather and/or the occurrence of other natural disasters may affect harvests of cocoa beans and hence the ability of the Group to source the cocoa beans with the required quantity and quality to meet customers' requirements. Accordingly, the financial position and the profitability of the Group may be adversely affected.

Reliance on key personnel

The Group's success is significantly attributable to the expertise and experience of the Directors, particularly Mr. Judianto, Mr. Herkiamto and Mr. Zulfian, its senior management team and key employees and their good relationships with farmers in Indonesia and overseas customers. Should any of the Directors and these senior management team members cease to be involved in the Group's operations in the future, the Group's operations and profitability may be adversely affected.

Storage and transportation of cocoa beans

Cocoa beans are perishable goods. They must be stored or transported under specific conditions in terms of ventilation, temperature, humidity, exposure to sunlight and certain other room conditions. If they are not stored or transported under suitable conditions, there is the risk of infestation and decay. In addition, there is the risk of damage from fire, water, or theft during storage or transportation. Should the Group's inventory of cocoa beans be stolen or damaged by infestation, decay, fire or water during storage or transportation, the Group's operations and profitability may be adversely affected.

Shipment of the Group's products

During the Track Record Period, all of the Group's sales were made to overseas markets by shipping the cocoa beans from the Group's warehouse to customers' designated destinations and all such shipments were made on a "free-on-board" basis from the shipping port in Indonesia. Under this arrangement, the Group's customers are responsible for the costs of the shipment, loss or damage during shipment and insurance in connection with the transportation from the shipping port in Indonesia. However, should there be any interruption to the shipment of the Group's products or there is loss or damage to the cocoa beans during transportation from the Group's warehouse to the shipping port in Indonesia, the Group's operations and its financial performance may be adversely affected.

Insurance

The Group's insurance policy covers damage or loss to cocoa beans during storage in the warehouse. The Group currently carries insurance coverage of IDR10 billion (equivalent to approximately HK$7.68 million) and the inventory balance of approximately HK$3.19 million as at 31st October, 2005. Should there be a loss or damage of inventory which is not covered by the Group's insurance policy, the Group's operations and profitability will be affected.

Credit risks of farmers

The Directors believe that the Group is one of the few purchasers in Indonesia which provide farmers with a 50% advance payment for their purchases. 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. Should the farmers fail to deliver the cocoa beans purchased by the Group following the payment of such 50% advance payment, the Group's operations may be adversely affected.

Unconfirmed tax position of the Group

The tax regulations in Indonesia adopts a "self-assessment" system. The tax authority does not normally confirm the self-assessment of a taxpayer; however it has the right to issue an assessment on the taxpayer within 10 years, if, after an audit, it considers that the taxpayer has not self-assessed the correct amount or if no tax return has been lodged. However, an assessment can be issued after expiry of 10 years if the taxpayer has committed a criminal act. According to note 8(a) to the Accountants' Report in Appendix I to Listing Document, as at 31st December 2002, Nataki had estimated unutilised tax losses amounting to approximately IDR17 billion (equivalent to approximately HK$15 million), which was derived from the self-assessment of Nataki and have not been confirmed by the tax authority. Should the above tax losses be subsequently disagreed by the tax authority, the Group's tax position and liability may be adversely affected.

Protection against breach of the Sales Agreements by customers

Under the Sales Agreements signed in October 2005, Unicom, ICBT and Westermann have agreed to purchase from the Group an aggregate annual minimum amount of 34,000 tonnes of cocoa beans for an initial term of three years commencing from October 2005. The Sales Agreements do not provide for any specific remedy on any failure by such customers to purchase and the Group fails to supply the minimum aggregate annual amount of cocoa beans. In the circumstances where any of the customers fail to purchase and the Group fails to supply the annual minimum amount of cocoa beans stated in the Sales Agreements, the profitability of the Group may be adversely affected.

Seasonality of turnover

Under normal circumstances, there are two harvest periods for cocoa beans in Indonesia, March to July and September to December, in each year. As such, the Group shows a relative weak sales performance in the first half year comparing with the later half year. This high concentration of turnover in the later half year due to seasonality may adversely affect the financial performance, if the Group cannot perform well in the later half at each year.

Exposure to fluctuations of foreign exchange rates

The Group is subject to exchange rate risks since its sales are denominated in US dollars while its purchases are made 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 fulfill 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 customers' purchase order and the Group will source the cocoa beans from the farmers within a few days after receiving the customers purchase order. Farmers normally deliver the cocoa beans to the Group within a few days to a month after the Group places 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.

The Group obtained a US dollar-denominated unsecured loan of US$30 million in October 1999. The outstanding amount of the loan, in the amount of US$16 million, was converted to IDR in December 2001. For the year ended 31st December, 2002, the Group incurred an exchange gain of approximately HK$1.5 million as a result of the settlement in September 2002 of the outstanding US dollar-interest accrued for the period before the unsecured loan was converted to IDR. Should the Group obtain further loans denominated in foreign currencies, the Group's profitability may be adversely affected as a result of any possible exchange loss arising from the foreign currency denominated loans.

According to the IDR/US dollar exchange rates quoted by Bank Indonesia (the Central Bank of Republic of Indonesia), the IDR/US dollar exchange rates fluctuated significantly during the Track Record Period. During the first half of 2002, IDR appreciated against US dollar from approximately 10,400 to approximately 8,730. Thereafter, no significant fluctuation occurred during the second half of 2002. During the year ended 31st December, 2003, the IDR/US dollar exchange rate ranged between approximately 8,908 and 8,227 and settled at approximately 8,465 as at 31st December, 2003. During the year ended 31st December, 2004, the IDR/US dollar exchange rate ranged between approximately 9,415 and 8,441 and settled at approximately 9,290 as at 31st December, 2004. During the ten months ended 31st October, 2005, the IDR/US dollar exchange rate fluctuated between approximately 10,800 and 9,133 and settled at approximately 10,090 as at 31st October, 2005. In late August 2005, the higher global oil price triggered the IDR to fall to its lowest rate against the US dollar since January 2002. Besides, as at 31st October, 2005, the Group placed approximately IDR 218,093,704,000 deposits in the Bank of Central Asia and have approximately IDR 29,294,316,000 cash on hand. If the IDR depreciated against US dollar in the future, it may incur a foreign exchange loss to the Group and its financial position may be adversely affected.

There is no assurance that the IDR/US dollar exchange rates will move in favour of the Group in the future and any unfavourable movements of the exchange rates may have an adverse effect on the Group's profitability. During the Track Record Period, the Group has not entered into any agreement or purchased any instrument to hedge against fluctuations in foreign exchange rates and has incurred foreign exchange gain/(loss) from trading operations of approximately HK$(3.5) million, HK$(5.3) million, HK$3.8 million and HK$2.6 million, respectively.

Currency conversion risks

The Group currently is able to convert IDR into foreign currency for the purpose of dividend distributions, there is no guarantee that the Indonesian government will not introduce more restrictive foreign exchange measures that could adversely affect the Group's ability to convert IDR into foreign currencies and/or to distribute foreign currency dividends.

RISKS RELATED TO THE INDUSTRY

Competition

The international cocoa beans trading industry is competitive with numerous suppliers both in and outside Indonesia. Cocoa beans traders in Indonesia face competition from other traders in Indonesia and from other major cocoa beans exporting countries such as Cote d'Ivoire and Ghana. If the Group is unable to react to changing market conditions and maintain its competitive position, the Group's prospects and profitability will be adversely affected.

Price fluctuations of cocoa beans

Both the Group's selling and purchase prices are determined at the time when purchase orders are made by customers with the Group and the Group with the farmers respectively, with reference to, amongst other things: (i) the then prevailing US dollar-denominated prices of cocoa beans as quoted on the NYCSCE; (ii) the ability to provide the farmers with a meaningful advance payment; (iii) the climate in Indonesia since this affects the supply and quality of the cocoa crop; and (iv) the size of the purchase. 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 fulfill 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 customers' purchase order and the Group will source the cocoa beans from the farmers within a few days after receiving the customers' purchase order. Because there is a time lag of a few days between the time when the customers place the purchase orders to the Group and the Group places the purchase orders to the farmers, the Group is subject to risks arising from fluctuations in cocoa beans prices within these few days.

Since the Group effectively earns a margin between the selling and purchase prices, both of which are determined with reference to, inter alia, the price quoted on the NYCSCE, the absolute amount of the Group's gross profit and hence its profitability will decrease as prices of cocoa beans quoted on the NYCSCE decrease, all other factors being equal.

RISKS RELATED TO INDONESIA

Economic, social and political considerations

The Group currently derives all of its turnover from its Indonesian operations and the Group's principal assets and operations are also based in Indonesia. The Group's operations are based in Indonesia and in general are subject to Indonesian laws and regulations and the operation of the legal system in Indonesia, the application of which may be uncertain. Indonesia has in the past few years experienced significant economic downturns, social instability and related difficulties. In addition, Indonesia has also experienced various degrees of political and social uncertainty. Any instability in the political, social and/or economic environment in Indonesia may have an adverse effect on the operations and income of the Group and the Group's profitability may also be affected. Any change in currency exchange rates or policy could increase the Group's costs relative to its revenues and may have an adverse effect on the Group's business, operating results and financial condition.

Possible future restrictions on foreign ownership

The Group is subject to the laws and regulations relating to, amongst other things, foreign investment in Indonesia. If the Group violates any applicable laws or regulations or fails to comply with the terms and conditions of any authorisation, action may be taken by the relevant regulatory authorities which may be detrimental to the Group's business. Certain of the Group's approvals are of a fixed duration, including its foreign investment approval which has an initial duration of 30 years, and there is no guarantee that such approvals will be renewed after the expiry of their initial terms.

In Indonesia, there are currently no restrictions for foreign investors to invest in companies that are engaged in the export sales and/or wholesale of cocoa beans to the domestic market and/or cocoa processing operations. The introduction of any new laws and regulations or changes to any existing laws and regulations that make it more restrictive for foreign investors to invest in companies engaged in such business activities may have an adverse impact on the business of the Group. The Group may be in breach of any such new laws and regulations and may have to procure that the Shareholders divest themselves of their Shares to Indonesian parties. In addition, should more restrictive new laws and regulations be introduced, it might be difficult for the Group to finance itself through foreign investors.

Furthermore, there are other legal restrictions and procedures which foreign investors have to comply with when investing in Indonesia or in Indonesian companies. While the Group has complied with all of these regulations, there is no assurance that these regulations will not be changed in the future or their interpretation or enforcement varied. Should these changes materialise to the detriment of the Group, the Group's operations may be adversely affected.

Tax on dividend distributions

Before 1st January, 2005 dividends paid by Nataki to Setimuly are subject to an effective tax rate of 8%, comprising a withholding tax of 5% on gross dividends (to be paid by Nataki to the Indonesian Government) and an effective income tax of 3% on gross dividends (to be paid by Setimuly to the Mauritius Government). Since 1st January, 2005, the double tax agreement between Indonesia and Mauritius has been officially terminated. Accordingly, pursuant to prevailing tax legislation, dividend distributions by Nataki to its shareholders, Setimuly (being an entity incorporated in Mauritius), are currently subject to a withholding tax rate of 20% on the gross amount of the dividend paid. Should the withholding tax rate or effective income tax rate increase as a result of a change in the tax legislation, the net amount of dividends to be received by the Company and thus the amount of profit available for distribution to the Shareholders through the Group's dividend distributions will be adversely affected.

Risks relating to terrorist attacks and civil unrest

On 1st October, 2005, the suicide bombs attack occurred in Bali, Indonesia. According to the Indonesian security forces, at least 25 people died and injured more than 130 people. In particular, especially Jakarta and Bali have been experiencing frequent terrorist attacks and civil unrest which may have significant economic effects in Indonesia. There is no assurance that there will not be any significant direct or indirect effects or any business interruption on the Group. If the political and economic conditions of Indonesia are adversely affected as a result of further terrorist attacks and civil unrest, the operating results, performance and financial position of the Group may be adversely affected.

In addition, the Group does not carry business interruption insurance to compensate for the losses that may occur as a result of these kind of events and any such losses or damages incurred by us could disrupt our operations.

Increase in fuel price

On October 2005, Indonesian government has implemented new measures for fuel subsidies, after that the fuel price increase closed a double to IDR 4,500 (around 45 cents of a US dollar) from IDR 2,400 per liter. It is the outcome of a decision taken by President Susilo Bambang Yudhoyono to slash government fuel subsidies to stop them from draining the annual budget. The higher fuel price may cause a negative impact on domestic economic conditions in Indonesia. If the domestic economic conditions are adversely affected as a result of the increase in fuel price, the operation results, performance and financial positions of the Group may be adversely affected.

RISKS RELATED TO THE SHARES

Past dividends should not be used as a reference for the Company's future dividend policy

The Company only declared and paid dividends of HK$0.01 per Share in financial year ended 31st December, 2003. Whilst Directors currently anticipate that the Company will retain certain portion of its distributable profit for future business expansion plan. The future dividends will be subject to the discretion of the Directors and will depend upon the earnings, financial conditions, tax subjected to dividends, capital and cash requirements and availability, business strategies and such other factors as the Directors may deem relevant. Hence, the dividends declared and paid by us in financial year ended 31st December, 2003 may not be used as an indication of the Company's future dividend policy.

Dilution of Shareholders' interests in the Company and public float through the exercise of options under the Pre-IPO Share Option Scheme, the Share Option Scheme and the Proposed Share Option Scheme

The Group has in place the Pre-IPO Share Option Scheme, under which options in respect of an aggregate of 56,000,000 Shares were outstanding as at the Latest Practicable Date. All of these options were granted at an exercise price equal to the par value of HK$0.01 per Share. The Group has also in place the Share Option Scheme and, as at the Latest Practicable Date, no options were granted under the Share Option Scheme.

The full exercise of all of these options granted under the Pre-IPO Share Option Scheme result in the issue of 56,000,000 Shares, representing approximately 5.83% of the issued share capital of the Company (taking no account of any Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Proposed Share Option Scheme or any Shares which may be allotted and issued by the Company pursuant to the General Mandate). This would result in a reduction in the percentage ownership of the Shareholders and may result in dilution in the assets and earnings per Share. In addition, the Company is able to issue further options under the

Proposed Share Option Scheme amounting up to a maximum of 10% of the issued share capital of the Company as at the date of approving the Proposed Share Option Scheme, provided that the limit of the 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 schemes of the Company (including the Pre-IPO Share Option Scheme and the Share Option Scheme) must not exceed 30% of the number of Shares in issue from time to time.

Particulars of the outstanding options granted are set out below:

Full name of grantee	Position	Percentage of the Shares subject to the options granted over the issued capital of the Company as at the listing of the Shares of GEM (i.e. 2nd December, 2003)	Subscription Price per Share *(HK$)*	Number of Shares to be issued upon exercise of options	Percentage of the Shares subject to the options granted over the issued capital of the Company as at the listing of the Shares on the Main Board	Percentage of the Shares subject to the options granted over the issued capital of the Company as at the Latest Practicable Date
Johanas Herkiamto	Director	2.00%	0.01	16,000,000	1.67%	1.67%
Rudi Zulfian	Director	2.00%	0.01	16,000,000	1.67%	1.67%
Elfisno	Head of Accounting	1.50%	0.01	12,000,000	1.25%	1.25%
Tiswan	Head of Internal Audit	1.50%	0.01	12,000,000	1.25%	1.25%
			Total:	56,000,000	5.83%	5.83%

Under the terms of such outstanding options, the options may not be exercised within the twelve-month period following the listing of Shares on GEM in December 2003. After such time, the outstanding options under the Pre-IPO Share Option Scheme may be exercised in accordance with the rules of the Pre-IPO Share Option Scheme.

The Shares held in the public hands immediately upon listing of the Shares on the Main Board would represent approximately 52.46% of the issued share capital of the Company. Assuming that all of the outstanding options granted under the Pre-IPO Share Option Scheme were exercised in full on the Listing Date, the shareholding interest of the public would be reduced from approximately 52.46% to approximately 49.57% of the issued share capital of the Company, taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options granted under the Proposed Share Option Scheme or any Shares which may be issued by the Company pursuant to the General Mandate. The exercise of the options granted under the Pre-IPO Share Option Scheme will have a diluting effect on the earnings per Share. Please refer to Appendix I Accountants' Report Note 10 for details of the diluting effect.

Prior to the listing of the Share on GEM, each of the holders of options granted under the Pre-IPO Share Option Scheme has severally undertaken to the Company, the then sponsor, Celestial Capital Limited, and the Stock Exchange that he/she will not exercise his/her options granted under the Pre-IPO Share Option Scheme if such exercise would result in the percentage of the securities of the Company held in public hands falling below 25%.