



China Agrotech Holdings Limited

浩倫農業科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

Placing and New Issue



Sponsor and Sole Placing Underwriter



IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



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Placing and New Issue

Number of Shares under the Placing and New Issue	: 75,000,000
Number of New Issue Shares	: not less than 7,500,000
Issue price	: HK\$1.20 per Share payable in full on application in HK dollars
Par value	: HK\$0.10 each
Stock Code	: 8011

**Listing on The Growth Enterprise Market of
The Stock Exchange of Hong Kong Limited**

Sponsor and Sole Placing Underwriter



New Issue Underwriters

ICEA Capital Limited

Tai Fook Securities Company Limited

TIS Taiwan International Securities (HK) Limited

Vickers Ballas Capital Limited

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VI, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. The Registrar of Companies and the Securities and Futures Commission in Hong Kong take no responsibility as to the contents of this prospectus or any of the documents referred to above.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

* For identification only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of The Stock Exchange of Hong Kong Limited and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by The Stock Exchange of Hong Kong Limited. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

1999

Latest time for lodging white and yellow application forms	12:00 noon on Friday, 19th November
Application lists open (<i>Note 1</i>)	11:45 a.m. on Friday, 19th November
Application lists close	12:00 noon on Friday, 19th November
Details of the results of applications, the levels of indication of interest in the Placing, and the basis of allotment under the New Issue to be published in the South China Morning Post, the Hong Kong Economic Times and on GEM Website on or before	Tuesday, 23rd November
Refund cheques in respect of wholly or partially unsuccessful applications pursuant to the New Issue to be posted on or before (<i>Note 2</i>)	Wednesday, 24th November
Share certificates to be posted on or before (<i>Note 2</i>)	Wednesday, 24th November
Dealings in the Shares on the Stock Exchange expected to commence on	Thursday, 25th November

Note 1: If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force on 19th November, 1999, the application lists will not open on that day. See the paragraph headed “The effect of bad weather on the opening of application lists” in the section headed “How to apply for New Issue Shares”.

Note 2: Refund cheques will be issued in respect of wholly and partially unsuccessful applications. Applicants who have applied for 200,000 New Issue Shares or above and have indicated in their application forms that they wish to collect refund cheques and (where applicable) share certificates personally may do so by visiting the Company’s branch share registrar HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 24th November, 1999. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations’ chop. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to HKSCC Registrars Limited. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant application forms. Further information is set out in the section headed “How to Apply for New Issue Shares”. Temporary documents of title will not be issued in respect of the New Issue Shares.

For details of the structure of the Share Offer, including conditions, see the section headed “Structure of the Share Offer — Conditions”.

CONTENTS

You should rely only on the information contained in this prospectus and the application forms to make your investment decision.

China Agrotech Holdings Limited has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by China Agrotech Holdings Limited, the Sponsor, the Underwriters, the directors of any of them, or any other persons involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Shares.

BUSINESS

The Group is engaged in the production and sale of DCPTA-based regulatory-type plant growth regulators (or PGRs) in the PRC. It is currently the only producer of regulatory-type PGRs in the PRC.

At present, two types of PGRs have been developed and are in use in the agricultural industry, namely, hormone-type PGRs and regulatory-type PGRs. Hormone-type PGRs serve to provide additional growth hormones to, or to stimulate hormone activities and/or hormone production within, a plant, thereby increasing its quantity in terms of weight or size or improving its quality. However, hormone-type PGRs are subject to the main limitation that each type of hormone-type PGRs only achieves one singular effect on a plant (as, for instance, increasing the size of a plant or its fruits but not, at the same time, improving its quality). In some cases, the application of hormone-type PGRs may affect plant quality or have other side effects.

Regulatory-type PGRs serve to influence or regulate the activities and interaction of enzymes, nuclei acid, protein and other substances that constitute the micro-structure of plant cells, thereby bringing about an overall improvement effect on the plant, including increase in quantity, improvement to quality, as well as improvement to immunity to disease and tolerance to drought and adverse temperatures. Regulatory-type PGRs have been developed largely to overcome the limitations of hormone-type PGRs. They are more technologically advanced and hence, are an improved product compared to hormone-type PGRs.

While the Group initially produced a general purpose regulatory-type PGR that could be applied generally to agricultural produce, it now produces two specific purpose regulatory-type PGRs, one for vegetables and the other for fruits. These specific purpose PGRs are improved products developed from the general purpose PGR. In the year ended 30th June, 1999, sales of the PGR for vegetables and for fruits accounted for approximately 49.4% and 50.6% respectively of the Group's turnover. The Group is in the final stages of developing two additional regulatory-type PGRs, one for tobacco and the other for rice, both of which are expected to be introduced to the market in early 2000.

The Group's production facility is located in Xiamen, Fujian Province, PRC. It is equipped with two production lines which are owned and operated by the Group's subsidiaries, Xiamen Genben and Fuzhou Topmart respectively. The production line operated by Xiamen Genben commenced commercial production in July 1997, while the production line operated by Fuzhou Topmart commenced commercial production in September 1999. The Group has a total annual production capacity of 560 tonnes of PGRs.

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

Risks relating to the Group

- Dependence on a major customer
- Protection of confidential technical knowhow
- Importance of continuing research and development
- Use of "超大" trade mark
- Dependence on key personnel
- Product liability risk
- Year 2000 compliance

Risks relating to the industry

- Product classification
- Natural disasters and extreme weather conditions

Risks relating to the PRC

- Political and economic factors
- Government control of currency conversion and exchange rate risks
- PRC legal system
- China's entry to the World Trade Organisation

Risks relating to the Share Offer

- Asian economic conditions
- Statistics

SUMMARY

PRINCIPAL STRENGTHS OF THE GROUP

The Directors believe that the principal strengths of the Group are as follows:

1. *The Only Producer of Regulatory-Type PGRs in China with Significant Expansion Potential*

The Group is currently the only producer of regulatory-type PGRs in the PRC. The more technologically advanced nature of its regulatory-type PGRs compared to hormone-type PGRs, in the Directors' view, provides the Group with its key competitive advantage. Research information compiled by 福建省石油化學工業廳 (the Department of Petroleum and Chemical Industry of Fujian Province) in 1999 estimated that the total annual potential consumption volume of PGRs in the PRC could reach 160,000 tonnes when the actual total production volume in 1998 only amounted to less than 10% of such potential consumption volume. This information suggests that other than developing the Group's market among existing hormone-type PGR customers, there is also significant untapped market potential among farmers who do not currently use any kind of PGR.

2. *High Profit Margin*

In each of the two years ended 30th June, 1998 and 1999, the Group had an operating profit margin before taxation and minority interests of approximately 44%. This is calculated after taking into account sales and promotion expenses which are expected to be relatively higher at the initial stages of the Group's development. The Group has full discretion in determining product prices in the light of market conditions. With its low cost structure, the Group has a significant degree of flexibility in determining its market strategy in the event of increased competition or unforeseeable market changes in the future.

3. *Continuing Research and Development to Maintain Competitive Advantage Over Competitors*

The Directors fully understand the importance of safeguarding the confidentiality of the Group's production knowhow as well as placing continuous emphasis on research and development to improve product quality and to develop a more diversified range of products. The Group has reached the final stages of the development of two new regulatory-type PGRs, one for tobacco and the other for rice. These products are expected to be launched in the market in early 2000. The Group has also commenced the development of other new regulatory-type PGRs for fungi, flowers, corns and oil seeds, each of which is expected to take over two years from initial research and development to commencement of commercial production. The Group believes that the continuous consolidation of its leading position in technology and research and development is key to further strengthening its competitive advantages over its competitors.

4. *Extensive Sales Network and Well Recognised Brand Name*

All of the Group's products are sold under the “超大” trade mark and brand name which are owned by the Chaoda Group. The Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and its “超大” trade mark and brand name are well-established in the PRC agricultural industry, and such market recognition has benefitted, and the Directors expect will continue to benefit, the Group's sales. The Chaoda Group is also the Group's largest customer as it is able to utilise its well-established distribution network that has direct access to

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agricultural communities throughout the PRC for the distribution of the Group's products. The Group also sells its products to various provincial agricultural resources companies and provincial agricultural technology promotion centres, all of which are government operated entities serving farmers throughout the PRC. The Directors believe that the combination of the Chaoda Group, the provincial agricultural resources companies and the provincial agricultural technology promotion centres provides the Group with a strong and comprehensive sales and distribution network throughout China.

5. *Government Awards and Support*

Since their initial stages of development, the Group's products have received various awards presented by governmental or industry bodies. In September 1997, the Group's DCPTA-based regulatory-type PGR was promoted by the State Science and Technology Commission on a nationwide basis and listed under '九五' 國家科技成果重點推廣計劃 (the National Priority Promotion Programme of Scientific Achievement of the ninth Five-Year Plan). In August 1998, 農業部全國農技推廣服務中心 (the National Agricultural Technology Promotion Service Centre of the Ministry of Agriculture) also promoted the Group's products to all agricultural technology centres throughout China. To the knowledge of the Directors, the Group's products have, so far, been the only PGR products promoted by 農業部全國農技推廣服務中心 (the National Agricultural Technology Promotion Service Centre of the Ministry of Agriculture) in recent years.

6. *Strong Management Team*

The Group has an experienced management team, key members of whom have extensive experience and technical expertise in the PRC PGR industry. Most of the key management members have been involved with the Group's operations since the early stages of its establishment.

FUTURE PLANS AND BUSINESS OBJECTIVES

Overall business objectives

The Group's overall business objectives are:

- to maintain its position as the leading producer of regulatory-type PGRs in the PRC; and
- to build upon the success of its two specific purpose PGRs for vegetables and for fruits and to further develop new specific purpose PGRs for a more diversified range of agricultural produce.

In 1998, there were over 100 producers of hormone-type PGRs in the PRC, while the Group was, and currently remains to be, the only producer of regulatory-type PGRs. In that year, the total production volume of PGRs in the PRC was approximately 15,000 tonnes, and the Group produced 180 tonnes of regulatory-type PGRs during the year ended 30th June, 1999. According to research information compiled by 福建省石油化學工業廳 (the Department of Petroleum and Chemical Industry of Fujian Province) in 1999, it was estimated that the total annual potential consumption volume of PGRs in the PRC could reach 160,000 tonnes. Hence, the Directors believe that there is significant market potential for regulatory-type PGRs both as a substitute product for hormone-type PGRs among existing users and as a new product among farmers who do not currently use any kind of PGRs.

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The Directors consider that the key competitive strength of the Group lies in the more technologically advanced nature of its products. The technical knowhow that is key to the production of the Group's products has been developed by Mr. Wu over a period of more than four years from early 1992. To the knowledge of the Directors, none of the producers of hormone-type PGRs in the PRC currently possesses the technical knowhow required for the production of regulatory-type PGRs. The Group currently faces a minimal degree of competition from imported PGRs as the import of PGRs into the PRC is subject to an import tariff of 13%. While the Group may face increased competition if such import tariff were to be abolished or significantly reduced, any imported product would still first have to comply with the PRC government's product registration and testing requirements and it may take at least two years before such product can be sold in the PRC. The Directors also believe that even if the prices of imported PGRs were to be lowered in the future, there would be sufficient cost margin for the Group's products to maintain their price competitiveness.

The most important part of the Group's production technology relates to the production of the base chemical of DCPTA from which specific purpose PGRs for different agricultural produce are produced. In comparison, the production of DCPTA requires a higher level of technical knowhow than the production of different types of specific purpose PGR using DCPTA as a base chemical. Hence, in terms of technology development, the Group has already completed the more critical part of the development of its production knowhow. This enables the Group to focus on the development of new specific purpose PGRs for a more diversified range of agricultural produce.

As its products are still relatively new to the PRC market, the Group will also continue to focus on increasing sales promotion and market education, particularly in relation to new products that are expected to be launched by the Group.

A summary of the specific business objectives of the Group for the remainder of the year ending 30th June, 2000 and the two financial years thereafter is set out below:

- the Group will complete the development of two new regulatory-type PGRs, one for rice and the other for tobacco, and commence commercial production of these products in March 2000;
- the Group expects to complete the acquisition of a vacant site of approximately 20,000 sq.m. at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province shortly after the completion of the Share Offer and to commence construction of a new production facility for Fuzhou Topmart on such site in December 1999 and to complete such construction in February 2000;
- the Group will establish four new production lines each having an annual production capacity of 280 tonnes of PGRs at the new production facility at Fuzhou, of which one will be used for the production of PGR for fruits, one for the production of PGR for tobacco and the remaining two for the production of PGR for rice, with all of them expecting to commence commercial production in March 2000;
- the Group will employ approximately 100 additional sales staff by the end of the year ending 30th June, 2000;

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- the Group expects to complete the development of two new PGRs, one for fungi and the other for flowers, and to establish two new production lines at the Fuzhou production facility for the production of these new products, with commercial production expecting to commence in the first half of 2001; and
- the Group expects to complete the development of two new PGRs, one for corn and the other for oil seed, and to establish two more new production lines at the Fuzhou production facility for the production of these new products, with commercial production expecting to commence in the first half of 2002.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The net proceeds from the Share Offer, after deducting related expenses, are estimated to be approximately HK\$79.4 million based on the Issue Price of HK\$1.20 per Share. The Company intends to apply the net proceeds in the following manner:

- approximately HK\$15,000,000 for payment of the cash consideration of RMB8,400,000, payment of land use rights fees and other fees and taxes charged by the relevant PRC governmental authorities in respect of the acquisition of the land use rights to a site of approximately 20,000 sq.m. at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province from 福州市科技園區倉山管理辦公室 (Fuzhou Cangshan Hi-Tech Science Park Management Office) of East Wing, Lin Ce Xu Complex, Bai Hu Ting, Cangshan District, Fuzhou, Fujian Province (an independent third party) and financing the construction of a new production facility comprising a production plant, a warehouse and an office building on such site;
- approximately HK\$20,000,000 for the establishment of four new production lines at the new production facility to be constructed in Fuzhou, of which one will be used for the production of PGR for fruits, one for the production of PGR for tobacco and the remaining two for the production of PGR for rice;
- approximately HK\$10,000,000 for the research and development of four new regulatory-type PGRs for fungi, flowers, corn and oil seeds;
- approximately HK\$10,000,000 for advertising and promotion of new products as well as expanding the sales force; and
- the balance is expected to be used as general working capital of the Group.

SUMMARY

AUDITED TRADING RECORD

The following is a summary of the audited combined results of the Group for each of the two years ended 30th June, 1999 (“Trading Record Period”), extracted from the accountants’ report, the text of which is set out in Appendix I to this prospectus. The audited combined results of the Group include the consolidated results of the Company and its subsidiaries as if the Group’s current existing structure had been in place throughout the Trading Record Period.

For further details on how the audited trading record of the Group was prepared, please refer to the section headed “Financial Information — Audited Trading Record” in this prospectus.

	Years ended 30th June,	
	1998	1999
	HK\$'000	HK\$'000
Turnover	4,534	21,065
Cost of sales	<u>(1,975)</u>	<u>(5,961)</u>
Gross profit	2,559	15,104
Selling, general and administrative expenses	<u>(561)</u>	<u>(5,838)</u>
Profit before taxation	1,998	9,266
Taxation	<u>—</u>	<u>(286)</u>
Profit after taxation but before minority interests	1,998	8,980
Minority interests	<u>(746)</u>	<u>(3,458)</u>
Profit attributable to shareholders	<u>1,252</u>	<u>5,522</u>
Dividends	<u>—</u>	<u>4,000</u>
Earnings per share ⁽¹⁾	<u>0.72 cents</u>	<u>3.16 cents</u>

Note 1: The calculation of earnings per Share is based on the combined profit after taxation and minority interests of the Group for each of the two years ended 30th June, 1998 and 1999 and a total of 175,000,000 Shares in issue after the Capitalisation Issue during such years.

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 30TH JUNE, 2000

Combined profit after taxation and minority interests

but before extraordinary items (*Note 1*) not less than HK\$28.2 million

Earnings per Share

— pro forma fully diluted (*Note 2*) HK\$0.119

— weighted average (*Note 3*) HK\$0.128

Notes:

1. The bases and assumptions on which the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2000 (the “Forecast”) has been prepared are set out in Appendix II to this prospectus. The Directors are not aware of any extraordinary item which has arisen or is likely to arise during the year ending 30th June, 2000.
2. The calculation of the forecast earnings per Share on a proforma fully diluted basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 30th June, 2000 and on the assumption that the Company had been listed since 1st July, 1999 and 250,000,000 Shares were in issue during that year. The calculation does not take into account any Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme or the exercise by the Directors of the general mandate granted to them to allot and issue Shares. The forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 30th June, 2000 has been adjusted for the purposes of this calculation to take into account the interest income that would have been earned if the estimated net proceeds of the Share Offer were received on 1st July, 1999 based on an interest rate of 4.5% per annum, net of tax, between that date and the expected date of receipt of the net proceeds of the Share Offer.
3. The forecast weighted average earnings per Share is based on the forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 30th June, 2000 and on the weighted average number of 219,877,049 Shares expected to be in issue during that year. The calculation assumes that (a) no Shares will be issued pursuant to the exercise of options granted under the Share Option Scheme or the exercise by the Directors of the general mandate granted to them to allot and issue Shares, (b) no Shares will be repurchased by the Company and (c) the Shares issued pursuant to the Share Offer were issued at the Issue Price.

SUMMARY

SHARE ISSUE STATISTICS

Issue Price per Share	HK\$1.20
Market capitalisation (<i>Note 1</i>)	HK\$300 million
Prospective price/earnings multiples	
— pro forma fully diluted (<i>Note 2</i>)	10.1 times
— weighted average (<i>Note 3</i>)	9.4 times
Adjusted net tangible asset value per Share (<i>Note 4</i>)	HK\$0.346

Notes:

1. The calculation of market capitalisation is based on the Issue Price and 250,000,000 Shares in issue immediately after the completion of the Share Offer and the Capitalisation Issue but takes no account of (a) any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme or (b) the exercise by the Directors of the general mandate granted to them to allot and issue Shares, or (c) any Shares which may be repurchased by the Company.
2. The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis of approximately HK\$0.119 and on the Issue Price.
3. The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis of HK\$0.128 and on the Issue Price.
4. The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed “Financial Information — Adjusted Net Tangible Assets” in this prospectus and on the basis of a total of 250,000,000 Shares in issue immediately following the completion of the Share Offer at the Issue Price and the Capitalisation Issue.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are set out in the section “Risk Factors”. You should read this section carefully before you decide to invest in the Shares.

DEFINITIONS

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

“Articles of Association”	the articles of association of the Company, a summary of which is set out in Appendix IV
“Board”	the board of directors of the Company
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of part of the share premium account of the Company as referred to in the paragraph headed “Further Information about the Company” in Appendix V
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Chaoda Group”	Fujian Chaoda Group, Fujian Chaoda and Supreme Bonus
“Companies Law”	the Companies Law (1998 Revision) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company” or “China Agrotech”	China Agrotech Holdings Limited, a limited company incorporated in the Cayman Islands on 9th September, 1999
“connected person” or “person connected”	as defined in the GEM Listing Rules
“Director(s)”	director(s) of the Company
“Dollars” or “HK\$” and “cents”	Hong Kong dollars and Hong Kong cents, respectively, the lawful currency of Hong Kong
“Fujian Chaoda”	福建超大農業產品銷售有限公司, a limited company incorporated in the PRC
“Fujian Chaoda Group”	福建超大集團有限公司, a limited company incorporated in the PRC
“Fuzhou Topmart”	福州浩倫植物生長劑有限公司 (Fuzhou Topmart Plant Growth Co., Ltd.), a wholly foreign-owned enterprise established under the laws of the PRC on 6th July, 1999 and a wholly-owned subsidiary of the Company
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the Council of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM made by the Stock Exchange from time to time

DEFINITIONS

“GEM Website”	the internet website operated by the Stock Exchange for GEM
“Group”	the Company together with its subsidiaries, or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the Company’s subsidiaries at that time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“ICEA”	ICEA Capital Limited, a registered dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Issue Price”	the price per Share (excluding brokerage and Stock Exchange transaction levy) payable in full on application at HK\$1.20 per Offer Share under the Share Offer
“Latest Practicable Date”	4th November, 1999, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
“Loyal Faith”	Loyal Faith International Industrial Limited, a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Ministry of Agriculture”	the Ministry of Agriculture of the PRC (中華人民共和國農業部)
“MOFTEC”	the Ministry of Foreign Trade and Economic Co-operation of the PRC (中國國家對外貿易經濟合作部)
“Mr. Wu”	Mr. Wu Shaoning, the Chairman of the Company
“New Issue”	the issue of the New Issue Shares by way of an offer for subscription to the public in Hong Kong at the Issue Price, payable in full on application, on and subject to and in accordance with the terms and conditions set out in this prospectus and the application forms relating thereto
“New Issue Shares”	the 7,500,000 new Shares (subject to adjustment) being offered for subscription at the Issue Price pursuant to the New Issue as described in the section headed “Structure of the Share Offer”
“New Issue Underwriters”	ICEA, Tai Fook Securities Company Limited, TIS Taiwan International Securities (HK) Limited and Vickers Ballas Capital Limited
“Offer Shares”	the Placing Shares and the New Issue Shares
“PBOC”	the People’s Bank of China (中國人民銀行)

DEFINITIONS

“PBOC Exchange Rate”	the exchange rate for foreign exchange transactions involving Renminbi published daily by the PBOC on the basis of the exchange rate prevailing in the inter-bank foreign exchange market on the preceding day
“Placing”	the conditional placing of the Placing Shares by the Sole Placing Underwriter with professional and institutional investors, as further described in the section “Structure of the Share Offer”
“Placing Shares”	the 67,500,000 new Shares (subject to adjustment) being placed at the Issue Price pursuant to the Placing as described in the section headed “Structure of the Share Offer”
“PRC”, “State” or “China”	the People’s Republic of China, and except where the context requires, references in this prospectus to the PRC or China do not include Hong Kong, Macau or Taiwan
“Regulation S”	Regulation S under the Securities Act
“Reorganisation”	the corporate reorganisation in preparation for the listing of the Shares on the GEM as described in Appendix V to this prospectus
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	State Administration for Foreign Exchange of the PRC (中國國家外匯管理局)
“SAIC”	State Administration of Industry and Commerce of the PRC (中國國家工商行政管理局)
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Securities Act”	United States Securities Act of 1933, as amended
“Share Offer”	the Placing and the New Issue
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 11th November, 1999, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Sole Placing Underwriter”	ICEA
“Sponsor”	ICEA
“sq.m.”	square metre or square metres

DEFINITIONS

“State Bureau of Petroleum and Chemical Industry”	the State Bureau of Petroleum and Chemical Industry of the PRC (中華人民共和國石油化學工業局), which was established from the merger of the Ministry of Petroleum Industry of the PRC (中華人民共和國石油工業部) and the Ministry of Chemical Industry of the PRC (中華人民共和國化學工業部)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Bonus”	Supreme Bonus Limited, a limited company incorporated in Hong Kong
“Topmart”	Topmart Limited, a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Underwriters”	the Sole Placing Underwriter and the New Issue Underwriters
“Underwriting Agreement”	the underwriting and placing agreement dated 15th November, 1999 entered into between, among others, the Company and the Underwriters relating to the Share Offer, particulars of which are summarised in the section headed “Underwriting”
“U.S.A.” or “U.S.”	the United States of America
“US Dollars” or “US\$”	U.S. dollars, the lawful currency of the U.S.
“Xiamen Genben”	廈門根本精細化工有限公司 (Xiamen Genben Fine Chemical Industry Co., Ltd.), previously known as 廈門得豐精細化工有限公司 (Xiamen Defeng Fine Chemical Industry Co., Ltd.), a sino-foreign equity joint venture enterprise established under the laws of the PRC on 9th June, 1997 and owned as to 62.67% by the Group and as to 37.33% by Xiamen Yien Yang
“Xiamen Kai Yuan”	Xiamen Kai Yuan Fine Chemical Industry Company (廈門市開元精細化工公司), a former PRC joint venture party of Xiamen Genben
“Xiamen Yien Yang”	Xiamen Yien Yang Industrial and Trading Company Limited (廈門延洋工貿有限公司), the PRC joint venture party of Xiamen Genben
“Yut Yat”	Yut Yat Company Limited, a limited company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company

GLOSSARY OF TECHNICAL TERMS

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

RISK FACTORS

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

RISKS RELATING TO THE GROUP

Dependence on a major customer

Sales to the Chaoda Group accounted for approximately 29.1% of the Group's turnover for the year ended 30th June, 1999. The Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and the Group's single largest customer. The Group entered into a sales contract with the Chaoda Group on 18th October, 1999 pursuant to which the Chaoda Group agreed to purchase not less than a minimum quantity of 250 tonnes of any kind of the Group's products in the year ending 30th June, 2000 and in each of the five years thereafter. The products will be sold to the Chaoda Group at the same prices as the Group sells to its other customers from time to time. If the minimum quantity is not purchased by the Chaoda Group in any period, it will pay to the Group a cash amount to compensate for the shortfall between the minimum quantity and the actual purchased quantity which will be calculated on the basis of the average price at which the Group has sold its PGRs to the Chaoda Group during the relevant period. Each of the Group and the Chaoda Group is entitled to terminate the sales contract before the end of its term on certain grounds including where the other party commits a material breach of any of the terms of the sales contract and such breach is not remedied within a specified time or such other party goes into liquidation or ceases to carry on business. While it is the Group's intention to continue broadening its customer base, the Directors foresee that the Chaoda Group will remain one of the Group's major customers in the near future. Until sales to the Chaoda Group account for a lesser proportion of the Group's turnover, any failure by the Chaoda Group to meet its obligations under the sales contract as to the placing of purchase orders or payment or any material adverse change in the business or financial position of the Chaoda Group may have a material adverse effect on the Group's business, operating results and financial position.

Protection of confidential technical knowhow

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

The most important part of the Group's production technology relates to the production of the base chemical of DCPTA from which specific purpose PGRs for different agricultural produce are produced. While the chemical compound structure of DCPTA is generally known, the process by which DCPTA may be produced has, to the knowledge of the Directors, remained to be confidential information. In July 1999, Mr. Wu applied to the PRC Patents Registry for patent registration in respect of the technical knowhow relating to DCPTA production and in September 1999, he assigned all his rights and interests in such technical knowhow and the benefit of such application to the Group. According to the Directors' understanding, the processing of the Group's patent application will involve the public notification of the application by the PRC Patents Registry after a period of 18 months has elapsed from the date on which the application was made. After such notification, the

RISK FACTORS

Registry will review such application which involves conducting searches, both in the PRC and internationally, to ascertain whether there is any existing patent registration in respect of identical or substantially similar DCPTA production knowhow. If the PRC Patents Registry is satisfied with such review, it will approve the patent application. Within 6 months of such registration, objections may be lodged. Once approved (and unless successfully challenged), the patent registration will be valid for a term of 20 years from the date of application. The entire registration process could take up to three years to complete. Hence, the Group does not expect the registration of its patent under application to be completed until 2002. According to searches conducted at the PRC Patents Registry at the instructions of the Directors, there is currently no patent registration in respect of technical knowhow related to the production of DCPTA with the PRC Patents Registry.

Investors should appreciate that any breach of confidentiality in respect of the Group's production knowhow may have a material adverse effect on its business. To the knowledge of the Directors, the use by the Group of its DCPTA production knowhow in the PRC does not infringe the intellectual property right of any third party. Investors should appreciate, however, that there is no assurance that the Group's patent application to the PRC Patents Registry will be approved. Investors should also appreciate that while the Group's application for patent registration in the PRC will, when completed, provide additional protection under the PRC Patent Law (1984, revised in 1992), there remains a significant degree of risk of patent infringement and significant uncertainty as to effective enforcement against infringers in the PRC.

While the Group is currently the only producer of DCPTA-based regulatory-type PGR in the PRC, it is possible that another party may successfully develop its own DCPTA production technology including by conducting detailed analysis of the Group's products. However, in the Directors' view, this would involve significant technical difficulty and is unlikely to be achieved within a short period of time. It is also possible that another party may be able to commence production of DCPTA-based PGR by purchasing DCPTA in its processed form as a raw material, although the Directors are not aware of any existing supply of DCPTA as a raw material.

Importance of continuing research and development

The technical knowhow that is key to the production of the Group's products has been developed by Mr. Wu over a period of more than four years from early 1992. The Group is currently the only producer of regulatory-type PGR in the PRC and its products are more technologically advanced and hence, are an improved product compared to hormone-type PGRs. The Group will place continued emphasis on research and development and will closely monitor technology development in the industry. Investors should, however, appreciate that, over time, it is possible that regulatory-type PGRs may be superseded by more technologically advanced products. Investors should also note that the achievement of the business objectives set out in the section headed "Future Plans and Business Objectives" assumes that the Group does not encounter any significant difficulty in the research and development of any of its new products. If the Group encounters any such difficulty, it may delay the achievement of such business objectives or may result in such business objectives having to be significantly revised or adjusted.

Use of “超大” trade mark

The Group produces and sells all of its products under the “超大” trade mark which is owned by the Chaoda Group and registered in the PRC. The Group and the Chaoda Group have entered into licence agreements pursuant to which the Chaoda Group granted the Group the exclusive right to use the “超大” trade mark in connection with the production and sale of PGR products in the PRC and

RISK FACTORS

Hong Kong for a fixed term of 25 years which may be renewed by the Group and the Chaoda Group by further agreement (see the section headed “Business — Intellectual Property Rights” and paragraph 9 of Appendix V). The Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and its “超大” trade mark and brand name are well-established in the PRC agricultural industry. Given the Group’s reliance on the use of the “超大” trade mark and brand name, however, investors should appreciate that the Group’s business may be materially adversely affected if it loses the use of the “超大” trade mark and brand name (which could arise if, for instance, the trade mark licence agreements with the Chaoda Group become terminable by the Chaoda Group in the event that the Group commits any material breach of their terms such as failure to pay the licence fee when due or sub-licensing of the right to use the trade mark to any third party without the Chaoda Group’s consent, or when the registration of the “超大” trade mark in the PRC expires on 20th August, 2007 and is not renewed) or if the goodwill associated with the “超大” trade mark or brand name is adversely affected whether as a result of infringement, misuse or otherwise.

Dependence on key personnel

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

Product liability risk

The Group does not currently maintain any product liability insurance. The Group has not experienced any third party liability claim in relation to its products. To control its product liability risk, the Group places significant emphasis on quality control and continually monitors any possible harmful effect that its products may have. However, given that it does not have any product liability insurance, any significant product liability claim could have a material adverse effect on the Group.

Year 2000 compliance

The year 2000 problem arises primarily because computer data storage had been expensive in the past and, therefore, most systems were equipped only with two digits to represent the year in their database so as to save storage space. The Group has assessed its computer software and systems in relation to their ability to process accurately transactions with dates extending beyond the year 2000 and they are year 2000 compliant. No assurance can be given, however, that such computer systems will function satisfactorily and according to expectation, or that, if problems do occur, they will not have a material adverse effect on the Group’s business and financial condition.

In addition, although the trading relationships between the Group and its significant suppliers and customers are generally governed by written contracts and the nature of the transactions the Group currently conducts with them are not heavily dependent on computer software and systems, any failure by its significant suppliers and customers to attain year 2000 compliance in respect of their computer software and systems may cause inconvenience to and may also adversely affect the Group’s business.

RISK FACTORS

RISKS RELATING TO THE INDUSTRY

Product classification

The production of chemical products in the PRC is regulated by the State Bureau of Petroleum and Chemical Industry. Each type of chemical products is subject to different product classification by the State Bureau of Petroleum and Chemical Industry and according to such classification, different testing procedures and regulatory requirements. The sale of fertilisers, pesticides, PGRs and certain other ancillary products for the agricultural industry in the PRC is regulated by the Ministry of Agriculture. Each such product is subject to different product classification by the Ministry of Agriculture and according to such classification, different regulatory requirements. As PGR is an agricultural chemical, its production and sale in the PRC are currently regulated by both the State Bureau of Petroleum and Chemical Industry and the Ministry of Agriculture. Agricultural chemicals may fall under the product classification of either fertilisers or pesticides and depending on such classification, are subject to different testing procedures and regulatory requirements, and are entitled to different preferential policies such as exemption from value-added tax and reduction of enterprise income tax if they satisfy specific requirements within their classification. As PGRs are a relatively new agricultural chemical product in the PRC, there has, so far, not been any clear guideline as to whether they should be classified under the fertiliser or pesticide category.

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

The Directors understand that the PRC government is considering establishing a new classification for PGRs for the purposes of the registration requirements described above. If such a new classification is introduced, it is uncertain, at this stage, as to how it would affect the Group and its products and whether there would be any change in the registration process or preferential treatment (in terms of exemption from PRC value added tax) currently available to the Group.

Natural disasters and extreme weather conditions

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

RISKS RELATING TO THE PRC

Political and economic factors

Since 1979, the PRC government has been reforming the economic and political systems of the PRC, and these reforms are expected to continue. Many of the reforms are unprecedented or

RISK FACTORS

experimental and are expected to be refined or changed. Other political, economic and social factors could also lead to further readjustments to the reform measures. The Group's operations and financial results could be adversely affected by adjustment in the state plans or the political, economic or social conditions of the PRC or changes in the policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof), measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

The PRC economy has experienced significant growth in the past few years, but such growth has been uneven both geographically and among the various sectors of the economy. The PRC government has implemented various macroeconomic and fiscal measures from time to time to control inflation and to regulate economic expansion with a view to preventing overheating of the economy. The official inflation rate was 17.1% in 1995, 8.3% in 1996 and 2.8% in 1997. The official deflation rate in 1998 was 0.8%. The PRC government has implemented policies from time to time to restrain the rate of such economic growth and control inflation or otherwise regulate economic expansion. Although the Group may benefit from any reduction in inflation, such measures or other actions by the PRC government could adversely affect the Group's business, prospects and results of operations.

Government control of currency conversion and exchange rate risks

The PRC government imposes control over the convertibility of Renminbi into foreign currencies. With effect from 1st January, 1994, the PRC government implemented a unified floating exchange rate system based on market supply and demand. Under the new system the PBOC publishes the PBOC Exchange Rate based on the previous day's dealings in the inter-bank foreign exchange market. Foreign currency designated banks use the exchange rate published by the PBOC as a basis and decide a rate of its own, which is within the floating range specified by the PBOC, to enter into foreign exchange sales and purchase transactions with customers. Foreign investment enterprises ("FIEs") (including sino-foreign joint ventures) are required to apply to the local bureau of the SAFE for "foreign exchange registration certificates" ("FERCs"). With such FERCs (which are granted to FIEs upon fulfilling certain specified conditions and which are reviewed annually by the local bureau of the SAFE in association with the Ministry of Trade and Economics, Bureau of Industry and Commerce and Customs Department) and authorisation from the SAFE (which is obtained on a transaction-by-transaction basis), FIEs may enter into foreign exchange transactions at the swap centres to obtain foreign exchange for their needs.

On 20th June, 1996, the PBOC promulgated the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment, and on the same date, it issued the 1996 No. 1 Order in respect of foreign exchange settlement and sale with banks which is applicable to FIEs. Under the new system, FIEs may undertake foreign exchange settlement and sale with designated foreign exchange banks after registration of their foreign exchange accounts, and may also continue to buy and sell foreign currency through the foreign currency adjustment centres ("Swap Centres") established by the SAFE. FIEs may open a foreign exchange settlement account for the receipt and payment of current items and a special foreign exchange account for the receipt and payment of capital items. The SAFE determines the maximum amount of foreign currency income which may be retained by the FIEs as current items based on its needs for foreign currency of current items. From 1st December 1998 onwards, all business of the Swap Centres in the PRC engaged by FIEs has been cancelled and the sale and purchase of foreign exchange by FIEs has been included in the currency clearing system of the banks.

RISK FACTORS

Although the new regulations have provided for the greater convertibility of the Renminbi, Renminbi is still not a freely convertible currency.

The Group does not currently have any foreign currency borrowing. Its main foreign currency requirement is in respect of the operations of its Hong Kong office. After the completion of the Share Offer, the Group will also need foreign currency to meet the payment of any dividend declared by the Company. The Group's two main operating subsidiaries, Xiamen Genben and Fuzhou Topmart, receive all of their revenues in Renminbi. Xiamen Genben is a sino-foreign equity joint venture enterprise and Fuzhou Topmart is a wholly foreign-owned enterprise and hence, both are FIEs. They have been issued with FERCs by the local bureau of the SAFE and are entitled to buy foreign exchange at the currency clearing system of the relevant bank for remittance outside the PRC. As FERCs are reviewed annually, there is no assurance that Xiamen Genben's or Fuzhou Topmart's right to undertake foreign exchange transaction may not be revoked or withdrawn. There is also no assurance that the Group will otherwise be able to obtain sufficient foreign exchange to meet its requirements (including as to the payment of dividends by the Company).

There can be no assurance that exchange rates will not become volatile or that the exchange rate of Renminbi against the U.S. dollar will not change in such a way as to affect the financial position of the Group. Exchange rate fluctuations may adversely affect the Group's financial performance.

Any devaluation of the Renminbi would increase the effective cost to the Company of satisfying its foreign currency requirements. Any such devaluation may also materially adversely affect the value, translated or converted into US or Hong Kong dollars, of the Group's net assets, its earnings and any declared dividends.

PRC legal system

Since 1979, many laws and regulations dealing with economic matters in general have been promulgated in the PRC. The PRC is still developing a legal framework to accommodate the needs of investors and to facilitate foreign investment. Since the PRC economy is undergoing development at a much faster pace than the legal system, some degree of uncertainty can be expected until legislation catches up with the economic reforms. The PRC legal system is based on statutes and decided legal cases are without binding legal effect. The interpretation of PRC laws may be subject to policy changes reflecting domestic political changes.

As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may all affect foreign investors. The trend of legislation over the past 18 years has, however, significantly enhanced the protection afforded to foreign investors in the PRC. Foreign parties may resolve disputes through arbitration or litigation. Arbitration alternatives include the China International Economic and Trade Arbitration Commission and the Maritime Arbitration Commission. The PRC is a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, under which an award rendered by a foreign arbitration tribunal should, as provided in the Convention, be enforceable. Judicial alternatives include various levels of the People's Courts, specialised courts (for example, the maritime or the railway courts) and, ultimately, the Supreme People's Court. However, on 1st July, 1997, Hong Kong became a Special Administrative Region of the PRC as a result of which the New York Convention, which is based on the assumption that the parties are located in different jurisdictions, can no longer be the basis for mutual enforcement of arbitration awards between the PRC and Hong Kong. On 21st June, 1999, the PRC and Hong Kong reached an agreement on "Arrangement for the Reciprocal Enforcement of Arbitral Awards between the PRC and Hong Kong"

RISK FACTORS

(關於內地與香港 特別行政區互相執行仲裁裁決的安排)。According to this agreement, the court of Hong Kong agrees to enforce awards made by PRC arbitral authorities pursuant to the Arbitration Law of the PRC (中華人民共和國仲裁法)。The courts in the PRC have also agreed to enforce awards made in Hong Kong pursuant to the Arbitration Ordinance. This arrangement will become effective after a judicial explanation has been issued by the Supreme People's Court of the PRC and the Arbitration Ordinance has been amended in Hong Kong.

China's Entry to the World Trade Organisation

China is currently seeking to re-join as a contracting member of the World Trade Organisation which uniformly regulates trade and tariffs among its contracting members. The PRC government has, on various occasions in the past two to three years, reduced import tariffs on a wide range of products. This process towards the general opening up of the Chinese market is expected to continue. This could result in foreign-made PGRs being imported into China at lower tariff rates, and might consequently lead to an increase in the competition faced by the Group. In such circumstance, while the Directors believe that the Group's products would be able to maintain their price competitiveness, there can be no assurance that the business of the Group may not be materially adversely affected.

RISKS RELATING TO THE SHARE OFFER

Asian economic conditions

Since mid-1997, capital markets in Hong Kong and other parts of Asia have experienced unprecedented levels of volatility. Such volatility has brought about significant depreciation in the value of certain Asian currencies relative to the US dollar. Over this period, the Hong Kong dollar and the Renminbi have not experienced any significant depreciation. Any devaluation in Hong Kong dollar or the Renminbi could further increase the volatility of trading on the Stock Exchange.

Statistics

Facts and statistics in this prospectus relating to the PRC economy (including the PGR industry) are derived from various government and institute research publications. While the Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, such facts and statistics have not been independently verified by the Group and, therefore, the Group makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:—

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Share Offer. For applicants under the New Issue, this prospectus and the application forms set out the terms and the conditions of the New Issue.

The Share Offer comprises the New Issue of initially 7,500,000 Shares and the Placing of initially 67,500,000 Shares, both at the Issue Price (subject, in each case, to re-allocation on the basis described under “Structure of the Share Offer”).

The Share Offer is managed by the Sponsor and the listing of the Shares on the GEM is sponsored by ICEA. The New Issue is fully underwritten by the New Issue Underwriters. The Placing is managed by ICEA and fully underwritten by the Sole Placing Underwriter.

RESTRICTIONS ON SALE OF THE OFFER SHARES

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related application forms. No person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Share Offer.

United States

The Offer Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom prior to the date six months from the date on which dealings in the Shares commence on the Stock Exchange except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services Act 1986 as amended by the Public Offers of Securities Regulations 1995 and where the applicable provisions of the Financial Services Act 1986 and the Public Offers of Securities Regulations 1995 have been complied with. In addition, no person may issue or pass on to any person in the United Kingdom any document received by it in connection with the Share Offer unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration and prospectus delivery requirements of the Securities and Exchange Law of Japan, and (ii) in compliance with any other applicable requirements of Japanese law.

Singapore

This prospectus has not been registered with the Registrar of Companies and Businesses in Singapore. Accordingly, this prospectus and any other document or materials in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any Offer Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in the Companies Act, Chapter 50 of Singapore (the “Singapore Companies Act”), (b) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act; or (c) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Singapore Companies Act. The Registrar of Companies and Businesses in Singapore takes no responsibility as to the contents of this prospectus.

APPLICATION FOR LISTING ON THE GEM OF THE STOCK EXCHANGE

Application has been made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue, the Share Offer and any Shares to be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme and as otherwise mentioned herein. No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought as at the date of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Shares to be issued pursuant to applications made in the Placing and New Issue will be registered on the Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained by Bank of Bermuda (Cayman) Limited in the Cayman Islands.

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

PROFESSIONAL TAX ADVICE RECOMMENDED

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

PROCEDURE FOR APPLICATION FOR NEW ISSUE SHARES

The procedure for applying for New Issue Shares is set out under "How to Apply for New Issue Shares" and on the relevant applications forms.

STRUCTURE OF THE OFFER

Details of the structure of the Share Offer, including its conditions, are set out under "Structure of the Share Offer".

EXCHANGE RATE CONVERSION

In this prospectus, unless otherwise specifically provided, amounts in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1.00 = RMB1.0667, being the PBOC middle exchange rate on the Latest Practicable Date, and amounts in US dollars have been converted into Hong Kong dollars at the rate of US\$1 to HK\$7.7583, being the New York Federal Reserve Bank noon buying rate on the Latest Practicable Date. Such conversions are for the purpose of convenience and for indication and reference purposes only and should not be construed as any representation that the Renminbi amounts, US dollar amounts and the Hong Kong dollar amounts have been, could have been or could be converted into Hong Kong dollars, US dollars and Renminbi, as the case may be, at that or any other rate or at all.

**DIRECTORS, CORPORATE INFORMATION AND
PARTIES INVOLVED IN THE SHARE OFFER**

Name	Address	Nationality
<i>Executive Directors</i>		
WU Shaoning (Chairman)	Flat A, 2nd Floor Orchid Garden No. 7 Tat Chee Avenue Yau Yat Chuen, Kowloon Hong Kong	Chinese
YANG Zhuoya (Managing Director)	24 Hauda Yuen Dongsha Street Guangzhou Guangdong Province PRC	Chinese
TUNG Fai	Flat A, 20th Floor Block 3, City Garden North Point Hong Kong	Chinese
<i>Independent Non-Executive Directors</i>		
HE Zhongpei	No. 504, Unit 2 822 Block, 3 Hanyuan Xi Lu, Yuen Ming Yuen Haidian District, Beijing PRC	Chinese
LAM Ming Yung	Room F, 2nd Floor Tien Tsin House Tsuen Wan Centre Tsuen Wan, New Territories Hong Kong	Chinese
<i>Members of audit committee</i>		
HE Zhongpei		
LAM Ming Yung		

**DIRECTORS, CORPORATE INFORMATION AND
PARTIES INVOLVED IN THE SHARE OFFER**

Company Secretary	Ms. Tam Fung Chee <i>Associate Member of Hong Kong Society of Accountants Fellow Member of The Association of Chartered Certified Accountants</i>
Qualified Accountant	Mr. Raymond Tong <i>Associate Member of Hong Kong Society of Accountants Associate Member of The Association of Chartered Certified Accountants</i>
Compliance Officer	Mr. Tung Fai
Authorised Representatives	Mr. Tung Fai Flat A, 20th Floor Block 3, City Garden North Point Hong Kong Ms. Tam Fung Chee Flat 5, 12th Floor Block J, Wei Chien Court Wyler Gardens Tokwawan, Kowloon Hong Kong
Service Agent	Ms. So Siu Ping
Sponsor and Sole Placing Underwriter	ICEA Capital Limited 43rd Floor NatWest Tower Times Square Causeway Bay Hong Kong
New Issue Underwriters	ICEA Capital Limited 43rd Floor NatWest Tower Times Square Causeway Bay Hong Kong Tai Fook Securities Company Limited 25th Floor New World Tower 16-18 Queen's Road Central Hong Kong

**DIRECTORS, CORPORATE INFORMATION AND
PARTIES INVOLVED IN THE SHARE OFFER**

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Unit 1010
Tower Two
Lippo Centre
89 Queensway
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Vickers Ballas Capital Limited
19th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Legal Advisers to the Company

As to Hong Kong law
Fong & Ng
in association with Goodman Phillips & Vineberg
8th Floor, China Building
29 Queen's Road Central
Hong Kong

As to PRC law
Guangzhou Foreign Economic Law Office
15th Floor, Chengyue Plaza
448 Dongfeng Zhong Road
Guangzhou, the PRC

As to Cayman Islands law
Conyers Dill & Pearman, Cayman
Zephyr House
Mary Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Legal Advisers to the Underwriters

Li & Partners
21st Floor, World Wide House
Central
Hong Kong

Independent Reporting Accountants

Arthur Andersen & Co.
Certified Public Accountants
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

**DIRECTORS, CORPORATE INFORMATION AND
PARTIES INVOLVED IN THE SHARE OFFER**

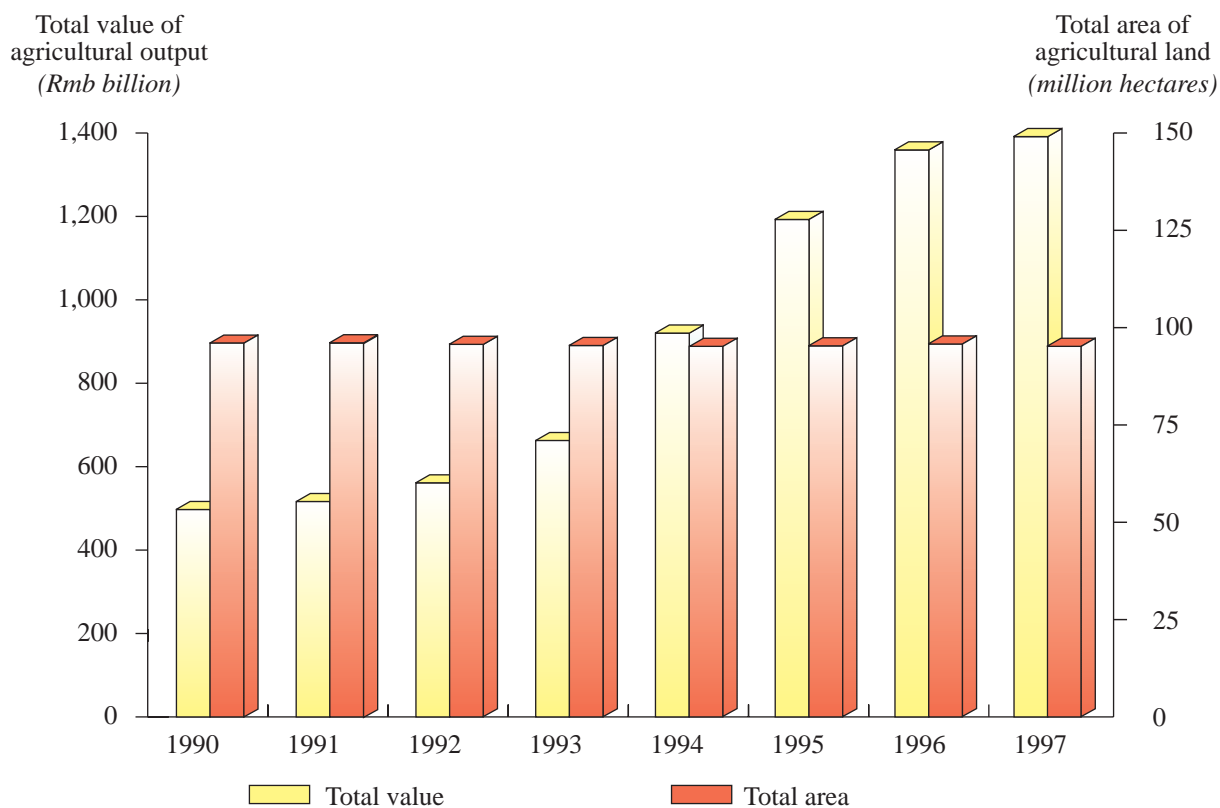
	Charles Chan, Ip & Fung CPA Ltd. <i>Certified Public Accountants</i> 37th Floor, Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong
Property Valuers	Sallmanns (Far East) Limited 15th Floor, Trinity House 165-171 Wanchai Road Wanchai Hong Kong
Registered Office	Zephyr House Mary Street George Town Grand Cayman Cayman Islands British West Indies
Head Office and Principal Place of Business in Hong Kong	Room 2906, 29th Floor China Resources Building 26 Harbour Road Wanchai Hong Kong
Principal Share Registrar and Transfer Office	Bank of Bermuda (Cayman) Limited P.O. Box 513 G.T. 3rd Floor British American Tower Dr. Roy's Drive George Town Grand Cayman Cayman Islands British West Indies
Hong Kong Branch Share Registrar and Transfer Office	HKSCC Registrars Limited 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Receiving Banker	Bank of China, Hong Kong Branch 1 Garden Road Central Hong Kong
Principal Bankers	Hua Chiau Commercial Bank Limited Hua Chiau Commercial Building 88-98 Des Voeux Road Central Hong Kong

INDUSTRY OVERVIEW

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

1. Background

In 1997, the population of China was approximately 1.24 billion, comprising approximately 21.2% of the world population. In contrast, China only had approximately 94.9 million hectares of agricultural land which accounted for approximately 7.2% of the total area of agricultural land in the world. In 1997, the agricultural output of China was approximately RMB1,386.7 billion, representing approximately 18.5% of its gross domestic product. While agriculture remains of significant importance in the PRC economy, there has been a continuous decrease in the area of agricultural land in the PRC in recent years. The total area of agricultural land in the PRC decreased from 95.7 million hectares to 94.9 million hectares during the period from 1990 to 1997, representing a decrease of approximately 0.8%. Notwithstanding such decrease in the total area of agricultural land, the total value of agricultural output increased by 179.9% over the same period. This has been achieved primarily through increased use of more modern agricultural machinery and equipment and the more widespread use of chemical and organic fertilisers. The following graph shows the agricultural output value as compared to the total agricultural land area of the PRC for the period from 1990 to 1997:



Sources: China Statistical Yearbook

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From 1990 to 1997, the population of China increased by approximately 8.8% from 1.14 billion to 1.24 billion. It is forecasted to reach approximately 1.6 billion by 2030. Hence, in formulating its agricultural policies in recent years, the PRC government has placed strong emphasis on increasing agricultural output to keep pace with population growth.

In 中華人民共和國國民經濟和社會發展‘九五計劃’ (the ninth Five-year Plan of The People’s Republic of China People’s Economic and Social Development) and 2010 年遠景目標綱要 (the Target Proposal for the year 2010) approved by the Eighth National People’s Congress in 1997, one of the targets laid down by the PRC government was for the total grain output of the PRC to reach 500 million tonnes by 2000. In the work report presented to the Eighth National People’s Congress in 1997 by Mr. Li Peng, the then Premier of the State Council, agricultural development was stated as a top priority task to be pursued by the PRC government. In Mr. Li Peng’s work report to the Ninth National People’s Congress in 1998, the strengthening of agriculture as one of the foundation industries of the PRC economy and the stabilisation of grain output were listed as prior goals of the PRC government. Particular emphasis has been placed by the PRC government on the development of agricultural technology. 中共中央關於農業和農村工作若干重大問題的決定 (The Central Committee’s Decision on Major Questions about Agriculture and Rural Work) issued at the meeting of the third plenary session of 中共中央十五屆三中全會 (the 15th Central Committee Party Congress) held in October 1998 stressed the importance of agricultural modernisation on the national economy and the top priority that should be given to the development of agricultural technology. In 當前優先發展的高技術產業重點領域指南 (the Guidelines on Preferred High Technology Industries for Immediate Development) jointly prepared by 國家發展計劃委員會 (the State Commission on Development and Planning) and the Ministry of Science and Technology in June 1999, technological modernisation in the agricultural industry was again stated as a top priority development area.

2. Plant growth regulators

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

PGR, in liquid or powder form, serves to influence or regulate the activities and interaction of such organic active substances during plant growth. By doing so, they improve both the quality and quantity of the plant (the quality in terms of the taste, colour, appearance and nutrition of the plant or its fruits and the quantity in terms of the size of the plant or the weight or quantity of its fruits). PGRs are applied in addition to (and not in place of) fertilisers. Compared with fertilisers, however, PGRs only have to be applied in minimal quantities. Hence, PGRs are particularly suited for use in agricultural environments such as China where there is a pressing need to maximise crop output and to improve crop quality with limited (or decreasing) arable land supply and other natural resources (such as water) and in the most cost effective manner. In “Agriculture in the 21st Century”, an industry publication in the United States in 1983, PGRs were then already recommended as the agricultural technology for the 21st century. The publication recommended the extensive use of PGRs and that PGRs should be given priority in agricultural technology development.

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

Hormone-type PGRs serve to provide additional growth hormones to, or to stimulate hormone activities and/or hormone production within, a plant, thereby increasing its quantity in terms of weight or size or improving its quality. Hormone-type PGRs can be divided into 6 major categories, namely, auxin, gibberellins, cytokinins, abscisic acid, ethylene and BR. Auxin was the first of them to be developed as a hormone-type PGR in 1934, while BR was the most recently developed in 1979. Hormone-type PGRs were widely used in the 1950s to 1970s. Auxin, for instance, was widely used in the cultivation of tomatoes in the 1950s, while ethylene was widely used in rubber production in the 1970s.

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

Regulatory-type PGRs serve to influence or regulate the activities and interaction of enzymes, nuclei acid, protein and other substances that constitute the micro-structure of plant cells, thereby bringing about an overall improvement effect on the plant, including increase in quantity, improvement to quality, as well as improvement to immunity to disease and tolerance to drought and adverse temperatures. Regulatory-type PGRs have been developed largely to overcome the limitations of hormone-type PGRs. In the 1970s, scientists identified polyamine for development into a new type of PGRs which has subsequently become generally known as regulatory-type PGRs. To date, five categories of polyamine have been discovered, namely, DCPTA, putrescine, cadaverine, spermine and agmatine. Of these, only DCPTA has, so far, been put to commercial production for agricultural use. DCPTA was discovered in 1987 by Henry Yokoyama of the Agricultural Research Services of the United States Department of Agriculture. DCPTA-based regulatory-type PGRs have been tested and shown to be capable of bringing about an overall improvement effect on plants, in contrast to the singular effect achieved by hormone-type PGRs. Experiments conducted in the United States have shown that DCPTA regulatory-type PGRs are capable of increasing crop yields by 20% to 280% and shortening flowering periods by 2 days to 10 months without any adverse effect on the quality of the plant or its fruits (*note 1*).

Note 1: The information is extracted from *Plant Biochemical Regulators*, Harold W. Gausman, 1991. A total of 13 types of vegetables were tested, including sweet basil, carrot, turnip, spinach and tomatoes. A total of 13 types of flowers were tested, including carnation, chrysanthemum and tulip.

3. The plant growth regulators industry in the PRC

According to 福建省石油化學工業廳 (the Department of Petroleum and Chemical Industry of Fujian Province), there are currently more than 100 producers of hormone-type PGRs in the PRC, while the Group is the only producer of DCPTA-based regulatory-type PGRs. As shown by regulatory provisions and policy statements introduced or issued in the PRC in recent years, there is a growing tendency on the part of the PRC government to encourage the transition from the use of hormone-type PGRs to regulatory-type PGRs in the PRC agricultural industry.

INDUSTRY OVERVIEW

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

In ‘中國農業科學技術政策’ 藍皮書 (the Blue Paper on Policies relating to Agricultural Science and Technology in the PRC) published in 1997 by 國家科學技術委員會 (the State Commission of Science and Technology), it was noted that PGRs represented only a very small portion of agricultural chemicals produced and used in the PRC notwithstanding their significant potential in improving crop output and quality when compared with traditional agricultural technology. The policy paper urged the full-scale development of PGRs as a new industry distinct from fertilisers and pesticides.

In 1998, 農業部全國農技推廣服務中心 (the National Agricultural Technology Promotion Service Centre of the Ministry of Agriculture) published 關於加大推廣超大植物生長劑的通知 (the Notice of Increasing the Promotion of “超大” Plant Growth Regulators) which was circulated to every 農技中心 (agricultural technology centre) throughout the PRC. The notice promoted the increased use of the Group’s regulatory-type PGR products. The Group’s products were also listed by the State Science and Technology Commission under ‘九五’ 國家科技成果重點推廣計劃 (the National Priority Promotion Programme of Scientific Achievement of the ninth Five-year Plan).

In 1998, the United States had a population of approximately 256 million. The total area of its agricultural land was approximately 190 million hectares, accounting for nearly 0.8 hectare per capita which is about 10 times higher than the PRC. When compared to the United States, the PRC, faced with a fast-growing population and a limited supply of agricultural land, has a far more pressing need to maximise the agricultural output of per unit of productive land. As evidenced by its policies and statements in recent years, the PRC government has demonstrated a high degree of commitment to the modernisation of agricultural technology as the future direction for the development of the agricultural industry in the PRC. This, in the Directors’ view, provides the Group with the most optimal environment and a unique opportunity to develop and realise the significant potential of its regulatory-type PGR business.

ACTIVE BUSINESS PURSUITS**Initial business developments**

Mr. Wu, the Chairman of the Company, began to engage in the trading of agricultural chemical products shortly after graduation from university. In 1992, he first learned of the research that has been carried out in the United States on DCPTA-based regulatory-type PGRs produced from polyamine. In view of the fast-growing population and the limited supply of agricultural land in the PRC, Mr. Wu recognised that the PRC faces a pressing need for agricultural output to be maximised in the most cost effective manner through the introduction of more advanced agricultural technology. In 1992, Mr. Wu began to carry out research studies on agricultural technology with particular focus on the production of DCPTA-based regulatory-type PGRs from polyamine.

Mr. Wu conducted certain of his researches and experiments in cooperation with various scientific institutions such as the Chemistry Department and Biology Department of Xiamen University and various research units at the Academy of China Agricultural Science. In late 1994, Mr. Wu succeeded in completing the development of a DCPTA-based regulatory-type PGR for which he later received the “Scientific Achievement and New Product Gold Prize for PRC Privately-owned Scientific and Technological Enterprises” awarded by the State Science and Technology Commission.

Mr. Wu then applied for the registration of the DCPTA-based regulatory-type PGR developed by him under the classification of pesticide with the State Bureau of Petroleum and Chemical Industry. In obtaining this registration, the PGR had to be subject to various testings as well as field experiments which involved the application of the PGR in the cultivation of various agricultural produce at three locations over a period of two years. Such testings and experiments were carried out by independent agricultural technology institutions or universities on behalf of the Ministry of Agriculture, the primary purpose of which was to verify the effect and safety in use of the PGR. The registration was obtained under the name of Xiamen Defeng Fine Chemical Industry Co., Ltd. (廈門得豐精細化工有限公司) (the former name of Xiamen Genben) in April 1997.

Mr. Wu then planned to begin commercial production of the DCPTA-based regulatory-type PGR developed by him by way of establishing a joint venture in the PRC. He reached agreement with Mr. Tung Fai (being one of the Directors) and Madam Chiu Na Lai that they would invest in such joint venture through Loyal Faith, which was then a dormant company owned as to 60% by Mr. Kwok Ho, 30% by Madam Chiu Na Lai and 10% by Madam So Siu Ping (Madam So Siu Ping is an independent third party and further information on Mr. Kwok Ho and Madam Chiu Na Lai is set out in the section headed “Business — Relationship with the Chaoda Group”). It was also agreed that the capital contribution required to be made by Loyal Faith to such joint venture would be funded by Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai in the proportion of 80%, 10% and 10% respectively.

In March 1997, Loyal Faith entered into a joint venture contract with Xiamen Kai Yuan and Xiamen Yien Yang, both independent PRC parties, for the establishment of Xiamen Genben (formerly known as Xiamen Defeng Fine Chemical Co., Ltd. until January 1998) as a sino-foreign equity joint venture enterprise to engage principally in the production and sale of PGRs. Xiamen Genben was established on 9th June, 1997 with a joint venture term of 15 years expiring on 9th June, 2012. It was to have a total investment of RMB3,650,000 and a registered capital of RMB2,650,000. Capital contributions and profit and loss were to be shared by Loyal Faith, Xiamen Kai Yuan and Xiamen Yien Yang in the proportion of 45%, 28% and 27% respectively.

Loyal Faith and Xiamen Yien Yang made their respective capital contributions to Xiamen Genben in accordance with the joint venture contract, but Xiamen Kai Yuan failed to meet its capital contribution commitment. The capital contribution made by Loyal Faith was funded by Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai in the proportion of 80%, 10% and 10% respectively in accordance with their earlier agreement. In April 1997, after having provided funds to Loyal Faith to make its capital contribution to Xiamen Genben, Mr. Wu and Mr. Tung Fai became the beneficial owner of an 80% shareholding and a 10% shareholding in Loyal Faith respectively, while Madam Chiu Na Lai became a 10% shareholder (the respective legal ownership of the 80% and 10% shareholding of Mr. Wu and Mr. Tung Fai in Loyal Faith were, as part of the Reorganisation, subsequently transferred to Yut Yat on 9th September, 1999 at the direction of Mr. Wu and Mr. Tung Fai respectively).

Business developments during the year ended 30th June, 1998

In June 1997, Xiamen Genben leased the land use rights to a site of approximately 750 sq.m. in Xiamen, Fujian Province, together with all buildings and structures on the site as its production premises. Xiamen Genben purchased machinery and equipment at a total cost of approximately RMB2,632,000. It commenced commercial production in July 1997. It then had one production line with an annual production capacity of 40 tonnes of PGRs.

In September 1997, the State Science and Technology Commission promoted the use of the DCPTA-based regulatory-type PGR developed by Mr. Wu on a nationwide basis in its publication and listed it under ‘九五’ 國家科技成果重點推廣計劃 (the National Priority Promotion Programme of Scientific Achievement of the Ninth Five-year Plan), being the only PGR product to have been so listed to the knowledge of the Directors.

As Xiamen Kai Yuan continued to fail to meet its capital contribution commitment to Xiamen Genben, in September 1997, the three joint venture parties agreed that Xiamen Kai Yuan's participation in the joint venture be terminated without liability. A new joint venture contract was entered into between Loyal Faith and Xiamen Yien Yang in October 1997, pursuant to which the total investment of Xiamen Genben was adjusted to RMB 2,680,000 and its registered capital to RMB 1,915,000 (being the total amount of capital contributions already paid by Loyal Faith and Xiamen Yien Yang). The proportion in which capital contributions and profit and loss were to be shared between Loyal Faith and Xiamen Yien Yang was also adjusted to 62.67% and 37.33% respectively, with Loyal Faith being entitled to appoint the majority of the directors of Xiamen Genben. At the same time, the name of Xiamen Defeng Fine Chemical Industry Co., Ltd. was changed to Xiamen Genben. A new business licence was issued on 4th January, 1998 pursuant to which Xiamen Genben's joint venture term of 15 years was re-stated to expire on 4th January, 2013.

As Xiamen Kai Yuan never made its capital contribution to Xiamen Genben, Loyal Faith effectively had an equity interest of 62.67% in, and appointed the majority of the directors on the board of, Xiamen Genben from the date of its establishment in June 1997. Apart from holding its 37.33% equity interest in Xiamen Genben, Xiamen Yien Yang did not take part in the business operation or manufacturing process of Xiamen Genben.

In May 1998, Xiamen Genben entered into a new lease agreement dated 28th May, 1998 (to replace the lease agreement signed in June 1997) to lease the land use rights to an enlarged site of approximately 1,485 sq.m. at the same location in Xiamen, together with all buildings and structures on the site for a term of 6 years commencing from June 1998 and expiring in June 2004. The rental was RMB16.5 per sq.m. per month, with an increment of 5% every 2 years.

Xiamen Genben commenced operation with 21 full-time employees and by the end of the year ended 30th June, 1998, the number of its full-time employees increased to 81. During this period, Mr. Wu was actively involved in the day-to-day management and operation of Xiamen Genben. Madam Gu Xue Mei, a graduate in fine-chemical engineering, who began to assist Mr. Wu on the establishment of Xiamen Genben in February 1997, was the manager of its technology department. In June 1998, a number of other key management and technical personnel also joined the Group. These included Mr. Tung Fai, who was appointed to oversee strategic planning and investment, Mr. Yang Zhuoya, who holds a doctorate degree in agricultural chemistry and plant nutrition and was appointed to oversee product research and development, Madam Lin Jin who holds a chemical engineering degree and was appointed to oversee production operations and Madam Yeh Jing Ping who was appointed finance manager.

Xiamen Genben first started with the production of the DCPTA-based regulatory-type PGR developed by Mr. Wu as a general purpose PGR that could be applied generally to agricultural produce. The principal raw materials include various types of alcohols, organic acids, polymerides and organic solutions, all of which are commonly available chemicals that Xiamen Genben sources from a number of domestic suppliers in the PRC. The quantity required of these materials, the duration for which and the temperature at which these materials are to be processed all form part of the confidential technical knowhow that is key to the production of the DCPTA-based regulatory-type PGR developed by Mr. Wu. At its initial stages of operation, Mr. Wu allowed Xiamen Genben to use such knowhow at no cost. Such knowhow was later assigned by Mr. Wu to the Group as described below. Xiamen Genben first adopted the 得豐 “Defeng” trade mark and brand name for the production and sale of its products but as it changed its name in January 1998, it adopted the 根本 “Genben” trade mark and brand name when it started selling its products. Xiamen Genben ceased using the 根本 “Genben” trade mark and brand name when it started using the “超大” trade mark and brand name as described below.

For the year ended 30th June, 1998, the Group achieved turnover of approximately HK\$4,534,000 and net profit after taxation and minority interests of approximately HK\$1,252,000. Xiamen Genben produced approximately 39 tonnes of PGRs. It achieved a utilisation rate of 97% in respect of its production facility. As its regulatory-type PGR was a new product in the PRC market, the main difficulty that Xiamen Genben encountered in its first year of operation was that it had to carry out a significant amount of sales promotion and market education. Xiamen Genben initially started to develop its customer base among provincial agricultural resources companies and provincial agricultural technology promotion centres as these are government operated entities serving farmers throughout the PRC. In May 1998, Xiamen Genben established its first two sales centres in Hubei and Shandong respectively. In June, another four sales centres were set up in Fujian, Henan, Shaanxi and Beijing respectively. In its first year of operation, Xiamen Genben had a total of approximately 20 customers, with the largest customer and the five largest customers then accounting for approximately 13.03% and 44.63% respectively of its turnover. The five largest customers and most of the other customers were all government operated provincial agricultural resources companies and agricultural technology promotion centres.

Business developments during the year ended 30th June, 1999

In June 1998, Xiamen Genben completed the development of two new specific purpose regulatory-type PGRs for vegetables and for fruits. These specific purpose PGRs were improved products developed from the general purpose PGR that Xiamen Genben had been producing. These new products were introduced to the market in July 1998 and completely replaced the general purpose PGR.

At the time when it launched the two specific purpose PGRs, Xiamen Genben also started sales to the Chaoda Group which is one of the leading suppliers of organic fertilisers in the PRC. The Chaoda Group has a well-established distribution network that has direct access to agricultural communities throughout the PRC. Xiamen Genben also began to use the “超大” trade mark and brand name in the production and sale of its products, in place of the “根本” trade mark and brand name. The “超大” trade mark is owned by the Chaoda Group and registered in the PRC. Pursuant to a licensing agreement entered into in June 1998, the Chaoda Group granted Xiamen Genben the exclusive right to use the “超大” trade mark and brand name in connection with the production and sale of PGR products in the PRC and Hong Kong for a fixed term of 25 years commencing from 15th June, 1998. A licence fee of RMB200,000 was payable in the first year of the licence term and an amount equivalent to 1% of Xiamen Genben’s turnover is payable in each year thereafter.

During the year ended 30th June, 1999, Xiamen Genben’s annual production capacity was increased from 40 to 180 tonnes of PGRs. It achieved a utilisation rate of 100% in respect of its production facility. The number of its full-time employees was increased to 86, with no change in any of its key management and technical personnel. Two additional sales centres were set up in Xichuan and Jiangsu respectively in August 1998. The turnover of the Group was HK\$21,065,000 and its net profit after taxation and minority interests was HK\$5,522,000, representing an increase of 365% and 341% respectively from the preceding year. Xiamen Genben produced approximately 89 tonnes of PGR for vegetables and 91 tonnes of PGR for fruits, accounting for approximately 49.4% and 50.6% respectively of its turnover. The Chaoda Group became Xiamen Genben’s single largest customer, accounting for approximately 29.1% of its turnover and Xiamen Genben’s customers increased to a total of approximately 50. The five largest customers, which included the Chaoda Group and government operated provincial agricultural resources companies and agricultural technology promotion centres, accounted for approximately 47.65% of Xiamen Genben’s turnover.

In the two years ended 30th June, 1999, the Group had been producing close to or at its full capacity and it was able to sell, in full, the total quantity of the PGRs that it produced.

Recent business developments

In March 1999, the three original shareholders of Loyal Faith, Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai, established Yut Yat. Yut Yat established Topmart in May 1999 which then proceeded to establish Fuzhou Topmart in July 1999 as a wholly-owned foreign enterprise in the PRC with an operating term of 15 years expiring on 1st July, 2014. Fuzhou Topmart had a total investment and registered capital of HK\$1,700,000 and HK\$1,200,000 respectively. All of the registered capital was contributed by Topmart in cash. Fuzhou Topmart acquired machinery and equipment at a total cost of approximately HK\$2,300,000 and established a new production line at Xiamen Genben’s production facility in Xiamen. This new production line commenced commercial production in September 1999 with an annual production capacity of 280 tonnes of PGRs. The Group’s total annual production capacity was then increased to 560 tonnes of PGRs. By the end of September 1999, the total number of the Group’s full-time employees increased to 118.

In early 1999, the Group started the development of two new regulatory-type PGRs, one for rice which was being developed in cooperation with Hunan Hybrid Crop Research Centre, and the other for tobacco which was being developed in cooperation with Henan Agricultural University Tobacco Research Centre. These new products are in their final stages of development. They are expected to be ready for commercial production in March 2000.

During 1999, the Group also started initial research studies on the development of a number of other new regulatory-type PGRs. These include the development of a PGR for fungi, being carried out in cooperation with the Fungi Development and Application Research Centre of the Fujian Agricultural School, a PGR for flowers being carried out in cooperation with the Biology Department of Liaoning Normal School and a PGR for corn and for oil seeds being carried out in cooperation with the Crop Biochemical Control Research Centre of the China Agricultural University. The Group currently targets to start commercial production of the PGR for fungi and for flowers in 2001, and the PGR for corn and for oil seeds in 2002.

In July 1999, Mr. Wu applied to the PRC Patent Registry for patent registration of the Group's technical knowhow. In September 1999, he assigned such technical knowhow together with the benefit of his patent application to the Group at a consideration of RMB60,000.

Pursuant to a licensing agreement entered into in July 1999, the Chaoda Group granted Fuzhou Topmart the exclusive right (together with Xiamen Genben) to use the “超大” trade mark and brand name in connection with the production and sale of PGR products in the PRC and Hong Kong for a fixed term of 25 years commencing from 6th July, 1999. The licence fee payable is 1% of Fuzhou Topmart's turnover each year.

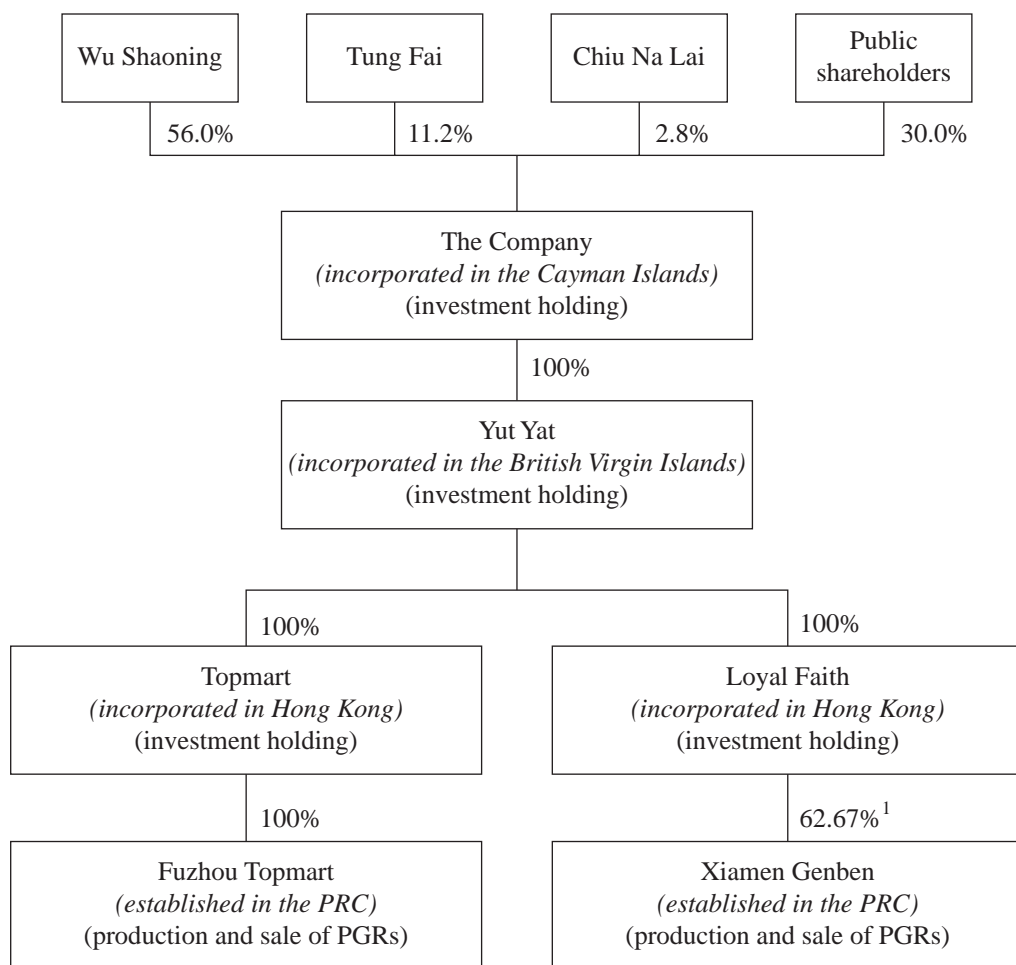
On 21st September, 1999, the Group signed a non-binding letter of intent with 福州市科技園區倉山管理辦公室 (Fuzhou Cangshan Hi-Tech Science Park Management Office) (an independent third party) for the acquisition of the land use rights to a vacant site of approximately 20,000 sq.m. at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province. The Group intends to use this site for the construction of a new production facility for Fuzhou Topmart.

The Company was incorporated in the Cayman Islands on 9th September, 1999 in connection with the Reorganisation which has been carried out in preparation for the listing of the Shares on the GEM. Pursuant to the Reorganisation, Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai transferred their respective shareholdings in Loyal Faith to Yut Yat and in return, were allotted additional new shares in Yut Yat in the respective proportion of 80%, 10% and 10% on 9th September, 1999. Immediately thereafter, Madam Chiu Na Lai transferred a 6% shareholding in Yut Yat to Mr. Tung Fai (see further details under the section headed “Business — Relationship with the Chaoda Group”). The Company acquired the entire shareholding in Yut Yat and became the holding company of the Group on 11th November, 1999 and in return, Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai were allotted shares in the Company. Each of Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai currently holds a shareholding of 80%, 16% and 4% respectively in the Company which will be reduced to 56.0%, 11.2% and 2.8% respectively immediately after the completion of the Share Offer.

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GROUP STRUCTURE

The chart below illustrates the subsidiaries of the Group and their main operating businesses and the shareholding structure of the Company immediately after the completion of the Share Offer:



Note 1: The remaining 37.33% is owned by Xiamen Yien Yang, the PRC joint venture party.

PRODUCTS

The Group produces DCPTA-based regulatory-type PGRs and is currently the only producer of such PGRs in the PRC. Prior to July 1998, the Group produced a general purpose regulatory-type PGR that could be applied generally to agricultural produce. From July 1998, the Group began to produce two types of specific purpose regulatory-type PGRs, one for vegetables and the other for fruits. These have since replaced the general purpose PGR previously produced by the Group.

Currently, two types of PGRs have been developed and are in use in the agricultural industry, namely, hormone-type PGRs and regulatory-type PGRs. Hormone-type PGRs currently account for a pre-dominant portion of PGRs produced and consumed in the PRC.

Hormone-type PGRs serve to provide additional growth hormones to, or to stimulate hormone activities and/or hormone production within, a plant, thereby increasing its quantity in terms of weight or size or improving its quality. However, hormone-type PGRs are subject to the main limitation that each type of hormone-type PGRs only achieves one singular effect on a plant. Hence, the application of a specific type of hormone-type PGRs on a plant may increase the size of its fruits but is not capable of bringing about other improvements to the plant (as to, for instance, taste, colour or appearance of its fruits) at the same time. In some cases, the application of hormone-type PGRs may affect plant quality or have other side effects.

Regulatory-type PGRs serve to influence or regulate the activities and interaction of enzymes, nuclei acid, protein and other substances that constitute the micro-structure of plant cells, thereby bringing about an overall improvement effect on the plant, including increase in quantity, improvement to quality, as well as improvement to immunity to disease and tolerance to drought and adverse temperatures. Regulatory-type PGRs have been developed largely to overcome the limitations of hormone-type PGRs.

All of the Group's products are sold under the “超大” trade mark which is owned by the Chaoda Group and registered in the PRC. Pursuant to licensing agreements and supplemental agreements entered into between the Group and Chaoda Group on 15th June, 1998, 6th July, 1999 and 9th September, 1999, respectively, the Chaoda Group granted an exclusive licence to the Group to use the “超大” trade mark and brand name in connection with the production and sale of PGR products for a period of 25 years (see also paragraph 9 of Appendix V).

The Group's products are in powder form and are packaged and sold in bags of 10 grams per bag and 800 bags per carton for PGRs for vegetables and 1,000 bags per carton for PGRs for fruits.

The production of chemical products in the PRC is regulated by the State Bureau of Petroleum and Chemical Industry. Each type of chemical products is subject to different product classification by the State Bureau of Petroleum and Chemical Industry and according to such classification, different testing procedures and regulatory requirements. The sale of fertilisers, pesticides, PGRs and certain other ancillary products for the agricultural industry in the PRC is regulated by the Ministry of Agriculture. Each such product is subject to different product classification by the Ministry of Agriculture and according to such classification, different regulatory requirements. As PGR is an agricultural chemical, its production and sale in the PRC are currently regulated by both the State Bureau of Petroleum and Chemical Industry and the Ministry of Agriculture. Agricultural chemicals may fall under the product classification of either fertilisers or pesticides and depending on such classification, are subject to different testing procedures and regulatory requirements, and are entitled to different preferential policies such as exemption from value-added tax and reduction of enterprise income tax if they satisfy specific requirements within their classification. As PGRs are a relatively new agricultural chemical product in the PRC, there has, so far, not been any clear guideline as to whether they should be classified under the fertiliser or pesticide category.

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

Plant growth regulators for vegetables

The growth process for vegetables is relatively short. Any imbalance between the rate of nutritious growth and reproductive growth of the plant cells in vegetables during their growth process may lead to abnormal growth which may adversely affect their quality. The Group's regulatory-type PGR for vegetables helps regulate the rate of nutritious growth and reproductive growth of the plant cells in vegetables, and improves their photosynthesis process particularly in environments of insufficient sunlight.

For the year ended 30th June, 1999, the sale of the Group's regulatory-type PGR for vegetables accounted for approximately 49.4% of its total turnover.

Plant growth regulators for fruits

The Group's regulatory-type PGR for fruits has been developed specifically to help regulate the rate of elongation and reproduction of fruit cells. It adjusts the level of various growth hormones at different nodes of branches or stems, thereby preventing common problems such as biennial fruiting and flowering without fruiting. The PGR helps maintain the fruit bearing process of older fruit trees. It also improves the quality of fruits, including their appearance, colour and taste.

For the year ended 30th June, 1999, the sale of the Group's regulatory-type PGR for fruits accounted for approximately 50.6% of its total turnover.

RAW MATERIALS

The principal raw materials used by the Group in its production process include various types of alcohols, organic acids, polymerides and organic solutions. Costs of raw materials account for a significant part of the Group's total production costs. In each of the two years ended 30th June, 1998 and 1999, raw materials accounted for approximately 35.2% and 54.1% of the Group's total production costs respectively and approximately 15.5% and 15.6% of its turnover respectively. Other production costs mainly include labour costs and manufacturing overheads such as depreciation,

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amortisation of development expenditure, rental and water and electricity charges. The following table shows a breakdown, by value and by percentage, of the costs of major raw materials and the proportion that total raw material costs borne to total production costs and turnover respectively in each of the two years ended 30th June, 1998 and 1999.

	For the year ended 30th June,			
	1998		1999	
	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>
Polymerides	275	13.8%	1,289	21.2%
Packaging materials	198	9.9%	921	15.1%
Alcohols	110	5.5%	516	8.5%
Emulsifying agents	82	4.1%	389	6.4%
Others	38	1.9%	177	2.9%
	<u>703</u>	<u>35.2%</u>	<u>3,292</u>	<u>54.1%</u>
Total raw material costs	<u>703</u>	<u>35.2%</u>	<u>3,292</u>	<u>54.1%</u>
Total production costs	<u>1,997</u>	<u>100.0%</u>	<u>6,085</u>	<u>100.0%</u>
Turnover	<u>4,534</u>		<u>21,065</u>	

The principal raw materials consumed by the Group are commonly available chemicals with ample supply in the PRC. At present, the Group purchases most of its raw materials from a number of chemical plants and chemical product suppliers in the PRC. The Group maintains at least two suppliers for each type of principal raw materials that it requires. The Directors consider that the Group maintains a stable relationship with its suppliers and no difficulty has been encountered in the sourcing of raw materials. As the raw materials required by the Group are not rare or difficult to source, the Directors do not anticipate any major difficulty in the sourcing of raw materials for production in the foreseeable future.

The Group normally enters into an annual purchase agreement with major raw material suppliers whereby the prices, quality and specifications of the raw materials required are stated. Transportation costs are borne by the suppliers. All raw materials are inspected by the Group on delivery to ensure that they are of the required quality. The Group usually pays for most of its purchases upon delivery.

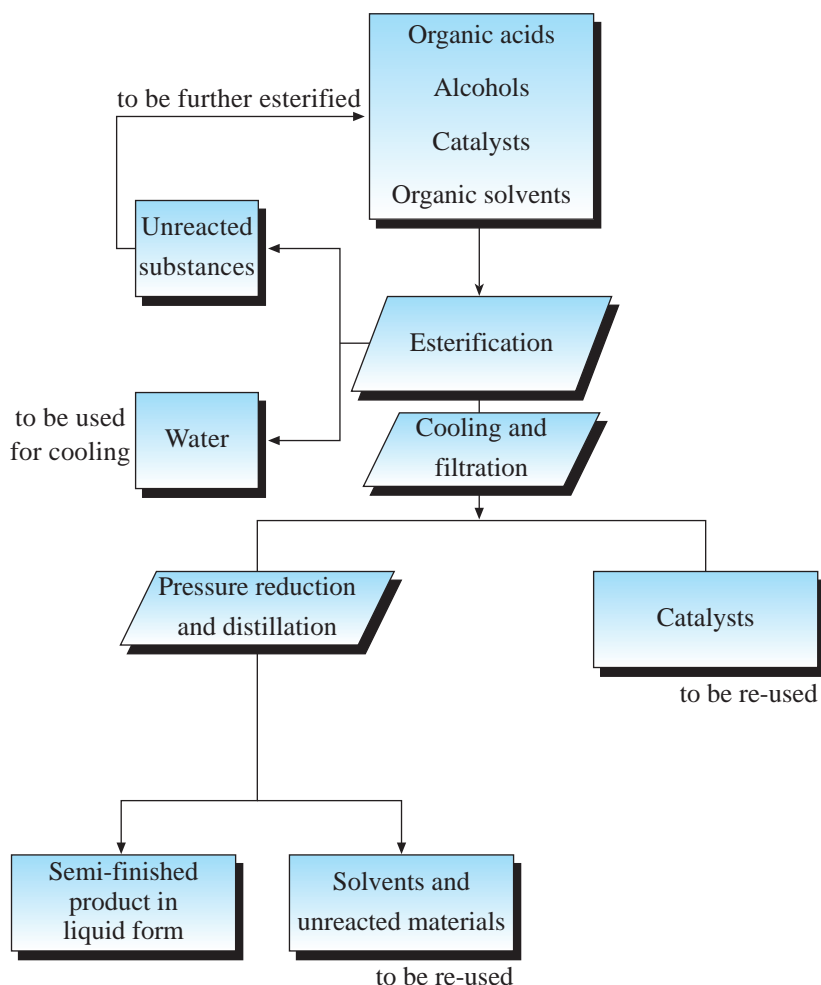
In each of the two years ended 30th June, 1998 and 1999, the largest five suppliers of the Group, together, accounted for approximately 88.1% and 74.8% respectively, and the largest supplier accounted for approximately 37.2% and 26.5% respectively, of the Group's total purchases. None of the Directors, the substantial or significant or management shareholders of the Company or their respective associates (as such terms are defined in the GEM Listing Rules) has any interest in any of the five largest suppliers of the Group.

PRODUCTION PROCESS

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

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

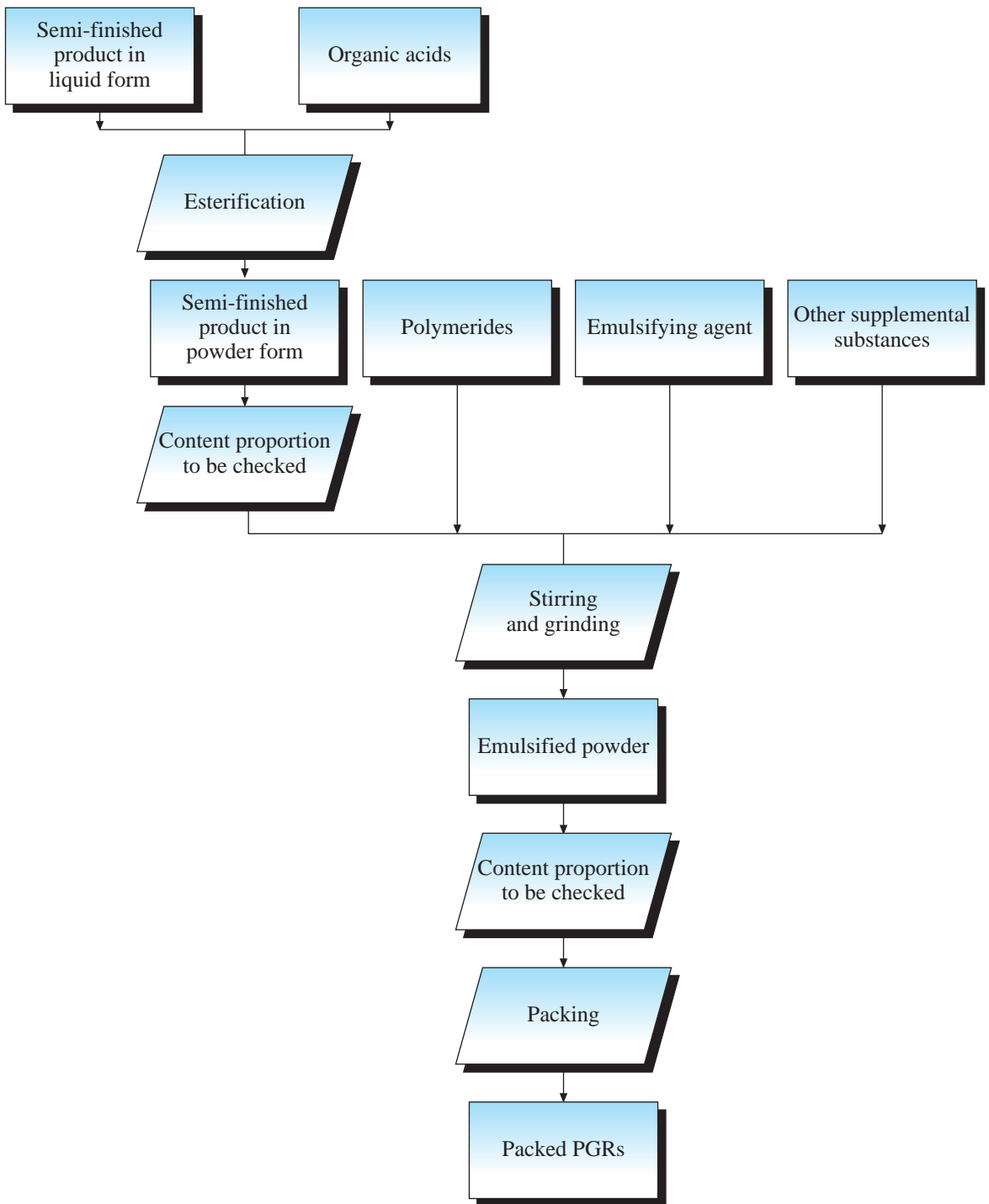
(a) Production process leading to semi-finished product in liquid form



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

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

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



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

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

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

QUALITY CONTROL

The Group maintains high standards of product quality and customer services. It implements stringent quality control measures throughout its production process and each processing procedure is subject to quality checks. The Group labels each bag of its products with a serial number to facilitate the tracing of any defective products and dealing with customer enquiries.

The Group has never had any material sales return and has never received any material complaints from its customers. For the year ended 30th June, 1999, the wastage rate in the Group's production process was less than 3%. The Directors believe that the low return and wastage rates are attributable to the strict quality control measures adopted by the Group.

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

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SALES

The Group sells all of its products in the PRC. It currently has more than 40 regular wholesale customers located in over 18 provinces in the PRC. Neither Xiamen Genben nor Fuzhou Topmart is required by its articles of association or any approval document relating to its establishment to comply with any ratio between domestic and export sales. A geographical breakdown of the Group's sales in each of the two years ended 30th June, 1998 and 1999 is set out below:

Region	For the year ended 30th June, 1998		30th June, 1999	
	Amount (HK\$'000)	Percentage of total sales	Amount (HK\$'000)	Percentage of total sales
Southern China (Fujian, Jiangxi, Guangdong)	1,231	27%	8,451	40%
Central China (Henan, Anhui, Hubei, Hunan)	1,541	34%	4,685	22%
Northeastern China (Shandong, Shanxi, Beijing, Liaoning, Hebei, Jiangsu)	1,365	30%	4,318	20%
Southwestern China (Sichuan, Yunnan, Guizhou)	128	3%	2,210	11%
Northwestern China (Xinjiang, Shaanxi, Gansu)	269	6%	1,401	7%
Total	4,534	100%	21,065	100%

The following map shows the provinces in which the Group's customers are located and the location of the Group's sales centres:



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The Group sells its products under the “超大” trade mark and brand name which are owned by the Chaoda Group and have been licensed to the Group for exclusive use in connection with the production and sale of PGR products since June 1998. The Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and its “超大” trade mark and brand name are well-established in the PRC agricultural industry. The wide market recognition of the “超大” trade mark and brand name in the PRC agricultural industry has benefitted, and the Directors expect will continue to benefit, the Group’s sales.

The Chaoda Group has been the Group’s single largest customer. Sales to the Chaoda Group accounted for approximately 29.1% of the Group’s turnover for the year ended 30th June, 1999. The Group has been selling its products to the Chaoda Group on the same terms (including as to price and payment) as those applicable to the Group’s other customers. The Chaoda Group is a group of companies in the PRC and Hong Kong owned by several individuals and corporate entities and is principally engaged in the production and sale of organic fertilisers. As one of the leading suppliers of organic fertilisers in the PRC, the Chaoda Group has been able to utilise its well-established distribution network that has direct access to agricultural communities throughout the PRC for the distribution of the Group’s products.

The Group entered into a sales contract with the Chaoda Group on 18th October, 1999 pursuant to which the Chaoda Group agreed to purchase not less than a minimum quantity of 250 tonnes of any kind of the Group’s products in the year ending 30th June, 2000 and in each of the five financial years thereafter. The products will be sold to the Chaoda Group at the same prices as the Group sells to its other customers from time to time. If the minimum quantity is not purchased by the Chaoda Group in any period, it will pay to the Group a cash amount to compensate for the shortfall between the minimum quantity and the actual purchased quantity which will be calculated on the basis of the average price at which the Group has sold its PGRs to the Chaoda Group during the relevant period. Each of the Group and the Chaoda Group is entitled to terminate the sales contract before the end of its term on certain grounds including where the other party commits a material breach of any of the terms of the sales contract and such breach is not remedied within a specified time or such other party goes into liquidation or ceases to carry on business. While it is the Group’s intention to continue broadening its customer base, the Directors foresee that the Chaoda Group will remain one of the Group’s major customers in the near future.

Apart from the Chaoda Group, the Group sells its products to two other major types of customers. These are agricultural resources companies (農資公司) from whom farmers purchase most of their supplies such as fertilisers, pesticides, agricultural tools and machinery, and agricultural technology promotion centres (農業科技推廣中心) which are responsible for providing technical assistance and introducing more advanced agricultural technology to farmers. Both the provincial agricultural resources companies and the provincial agricultural technology promotion centres are government operated entities with sales agents throughout the PRC. The Directors believe that the combination of the Chaoda Group, the provincial agricultural resources companies and the provincial agricultural technology promotion centres provides the Group with a strong and comprehensive sales and distribution network throughout China.

In each of the two years ended 30th June, 1998 and 1999, the five largest customers, together, accounted for approximately 44.63% and 47.65% respectively, and the largest customer accounted for approximately 13.03% and 29.14% respectively of the Group’s turnover. None of the Directors, the substantial or significant or management shareholders of the Company or their respective associates (as such terms are defined in the GEM Listing Rules) has any interest in any of the five largest customers of the Group.

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The Group has full discretion in setting its product prices in the light of market conditions and is not subject to any legal or regulatory controls on pricing. All of the Group's sales are denominated in Renminbi and normally effected on a cash basis. Only long-term customers with good credit history are allowed a 60-day credit period for a maximum of 40% of the price in respect of each purchase order. For each of the two years ended 30th June, 1998 and 1999, credit sales accounted for approximately 5% and 65% respectively of the Group's turnover. As the Group started to have an established relationship with its regular customers after its first year of operation, its credit sales increased in the year ended 30th June, 1999. The Group has not experienced any material bad debts or doubtful debts in the past.

As the Group's business is closely related to the agricultural industry, the occurrence of droughts, floods, earthquakes or other natural disasters on a significant scale or extreme weather conditions for any prolonged period in the PRC that results in any material adverse effect on the agricultural industry in the PRC will also have a material adverse effect on the Group's business. While previously the Group sold most of its products to customers located in northern China, the Group has, since the year ended 30th June, 1999, extended its markets to other parts of China. This helps the Group to reduce its exposure in the event that the agricultural industry is materially adversely affected by the occurrence of any significant natural disaster in any particular part of China.

MARKETING

As its products are new to the PRC market, the Group places strong emphasis on two aspects of its marketing efforts. These are the active introduction of the Group's products to a wide range of potential customers, from government operated agricultural resources companies and agricultural technology promotion centres to manufacturers, distributors and sales agents of fertilisers, pesticides and seeds, and the detailed education of, and the provision of technical assistance to, customers on the use of the Group's products. The Group has arrangements with various farms to act as its "model farms" where the Group's PGR products are applied in the cultivation of different types of vegetables and fruits. The produce from these farms can be used as comparisons by customers. The Group, in conjunction with the agricultural technology promotion centres, also arrange visits to its model farms and hosts introductory talks on its products for farmers.

The Group has established 8 sales centres in Beijing, Shandong, Jiangsu, Henan, Hubei, Shaanxi, Xichuan and Fujian respectively and employs a total of 45 sales personnel. These sale centres are not independent legal entities and hence, are not subject to PRC tax separately. They are sales offices set up by the Group to facilitate the promotion and sales of its products in different parts of the PRC. The operating expenses of these sales centres form part of the Group's sales and promotion expenses. The Group's other promotion activities include staff visits to agricultural communities, television and billboard advertising, and distribution of banners, leaflets and free samples of the Group's products.

With effect from 1st July, 1998, the Group began to allocate 6% of its sales revenues as sales and promotion expenses in each financial year. In the year ended 30th June, 1999, the Group incurred approximately HK\$1,333,000 on sales and promotion expenses. The remuneration package for the Group's sales personnel has, from 1st July, 1998, also been changed from a fixed salary to an 8% commission on guaranteed sales revenue with no basic salary. The Group believes that this arrangement increases the incentive of its sale personnel. In the year ended 30th June, 1999, the total amount of commission paid by the Group to its sales personnel was approximately HK\$1,685,000, while in the year ended 30th June, 1998, the total amount of salary paid to its sales personnel was approximately HK\$69,000.

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The Group does not provide any product warranty to its customers. The Group considers that it is more important for customers and end-users to be provided with sufficient technical advice and assistance to enable them to use the Group's products effectively. Hence, the Group focuses on providing a full range of after-sales services. At least one technical staff is stationed at each of the Group's sales centres who is primarily responsible for dealing with customer enquiries and providing technical advice and assistance as to how to achieve the best results from the use of the Group's products.

COMPETITION

In 1998, there were over 100 producers of hormone-type PGRs in the PRC, while the Group was, and currently remains to be, the only producer of regulatory-type PGRs. The Group's regulatory-type PGRs are more technologically advanced and hence, are an improved product compared to hormone-type PGRs. The more technologically advanced nature of its products, in the Directors' view, provides the Group with its key competitive advantage.

Set out below are details of the Group's two specific purpose regulatory-type PGRs and the hormone-type PGRs produced by the Group's four main competitors:

Brand name	“超大”	“Yunda 120”	“40% Ethephon Solution”	“綠風 95”	“920”
Principal location of manufacturer	Fujian	Yunnan	Shandong	Hebei	Hunan
Nature of product	regulatory-type in powder form	hormone-type in liquid form	hormone-type in liquid form	hormone-type in liquid form	hormone-type in liquid form
Current retail price ⁽²⁾	RMB2.80 per 10g	RMB2.00 per 10ml	RMB1.00 per 10ml	RMB2.00 per 25ml	RMB3.00 per 10ml
Usage cost per hectare of farmland ⁽³⁾	RMB168-252	RMB180-270	RMB60-120	RMB240-360	RMB270-405
Sales volume in 1998	180 tonnes ⁽¹⁾	1,100 tonnes	800 tonnes	560 tonnes	480 tonnes
Estimated market share in 1998 ⁽⁴⁾	1.2% ⁽¹⁾	7.3%	5.3%	3.7%	3.2%

Note (1): for the year ended 30th June, 1999.

(2): retail price quoted by an agricultural resource company in Fuzhou, Fujian Province.

(3): calculated by the Directors on the basis of the unit retail price times the number of units to be applied per hectare of land.

(4): calculated on the basis of the sales volume of each brand in 1998 and the total production volume of PGRs in the PRC of 15,000 tonnes in 1998.

According to research information compiled by 福建省石油化學工業廳 (the Department of Petroleum and Chemical Industry of Fujian Province) in 1999, it was estimated that the total annual potential consumption of PGRs in the PRC could reach 160,000 tonnes when the actual total

production volume of both hormone-type and regulatory-type PGRs in the PRC in 1998 only amounted to 15,000 tonnes. This information suggests that in addition to developing the Group's market among existing hormone-type PGR customers, there is significant untapped market potential among farmers who do not currently use any kind of PGR.

In August 1998, 農業部全國農技推廣服務中心 (the National Agricultural Technology Promotion Service Centre of the Ministry of Agriculture) published 關於加大推廣超大植物生長劑的通知 (the Notice of Increasing the Promotion of “超大” Plant Growth Regulators) which was circulated to all agricultural technology promotion centres to promote the increased use of the Group's regulatory-type PGR products. It was also stated in the notice that after field tests performed by various research institutions on over 20,000 hectares of different types of agricultural produce, the results indicated that there were distinct benefits from the application of the Group's regulatory-type PGRs in terms of improved crop quality, increased quantities and shortened growth cycle. To the knowledge of the Directors, the Group's PGR has been the only PGR promoted by 農業部全國農技推廣服務中心 (the National Agricultural Technology Promotion Service Centre of the Ministry of Agriculture) in recent years.

The Directors believe that there is, at present, a minimal amount of PGRs imported into China. The import of both fertilisers and pesticides (in either categories of which PGRs may be classified) into the PRC is currently subject to an import tariff of 13%. China is currently seeking to resume its status as a contracting party to the World Trade Organisation. The PRC government has, on various occasions in the past two to three years, reduced import tariff on a wide range of products. This could result in foreign-made PGRs being imported into China at lower tariff rates. The Directors believe that even if import tariff were to be lowered, it would not result in any immediate significant increase in the import of PGRs into China as any imported product would first have to be subject to various official field tests over a period of time before it could be sold in the PRC. The Directors are also confident that the Group's PGR products would be able to maintain their price competitiveness.

PROPERTY, PLANT AND MACHINERY

The Group has two production lines with an annual production capacity of 280 tonnes each, both of which are located at Northern Lianque Road (蓮岳路北側處) in Xiamen, Fujian Province. One of the production lines is owned and operated by Xiamen Genben and the other by Fuzhou Topmart. The land use rights to the Xiamen site on which such production lines are located, together with all buildings and other structures erected on the site, have been leased to Xiamen Genben for a term of 6 years expiring in June 2004.

The Group signed a letter of intent on 21st September, 1999 with 福州市科技園區倉山管理辦公室 (Fuzhou Cangshan Hi-Tech Science Park Management Office) of East Wing, Lin Ce Xu Complex, Bai Hu Ting, Cangshan District, Fuzhou, Fujian Province, an independent third party, for the acquisition of the land use rights to a vacant site of approximately 20,000 sq.m. situated at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province. The consideration for the acquisition payable to Fuzhou Cangshan Hi-Tech Science Park Management Office is RMB 8,400,000. In addition, the Group has to pay any land use right fees and other fees and taxes assessed and charged by the relevant PRC governmental authorities. In October 1999, the Group entered into a supplementary letter of intent with Fuzhou Cangshan Hi-Tech Science Park Management Office pursuant to which Fuzhou Cangshan Hi-Tech Science Park Management Office agreed that the land use right to be transferred to the Group will have a term of 50 years with effect from the date on which the land use right certificate is issued by the relevant governmental authority. The Group intends to use the site for the construction of a new production facility for Fuzhou Topmart. The Group intends to use part of the proceeds from the Share

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Offer to finance the acquisition of such site and the establishment of the new production facility on such site (see “Use of Proceeds” under the section headed “Future Plans and Business Objectives”). None of the shareholders or directors of the Company or any other members of the Group has any interest (direct or indirect) in the acquisition of such site.

In Fuzhou, the Group has also leased three properties, of which one was leased at an annual rental of RMB96,000 and is used as a research centre, the second was leased at an annual rental of RMB30,000 and is used as an administrative office, and the third was leased at an annual rental of RMB69,000 and is also used as an administrative office. The Group has also leased an office space in Hong Kong at a monthly rental of HK\$41,819 which is used as an administrative office.

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

All of the interests in buildings of the Group are under operating leases. The interests of the Group in these properties as at 30th September, 1999 have been valued by Sallmanns (Far East) Limited, an independent valuer, as having no commercial value. The valuation report prepared by Sallmanns (Far East) Limited is included as one of the documents available for inspection as stated in the section headed “Documents Available for Inspection” of Appendix VI. The text of the valuation report is set out in Appendix III to this prospectus.

ENVIRONMENTAL MATTERS

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

INTELLECTUAL PROPERTY RIGHTS

Patent

The Group’s regulatory-type PGRs are produced from a combination of various types of organic acids, alcohols, catalysts and organic solvents. The quantity required of the materials, the duration for which and the temperature at which the materials are to be processed all form part of the confidential technical knowhow that is key to the Group’s production process and is known only to Mr. Wu, the Chairman and Chief Executive Director of the Company, and certain other key technical and management personnel. Mr. Wu and such other personnel are bound, in their service contracts with the

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

The most important part of the Group's production technology relates to the production of the base chemical of DCPTA from which specific purpose PGRs for different agricultural produce are produced. While the chemical compound structure of DCPTA is generally known, the process by which DCPTA may be produced has, to the knowledge of the Directors, remained to be confidential information. In July 1999, Mr. Wu applied to the PRC Patents Registry for patent registration in respect of the technical knowhow relating to DCPTA production and in September 1999, he assigned all his rights and interests in such technical knowhow and the benefit of such application to the Group at a consideration of RMB60,000.

According to the Directors' understanding, the processing of the Group's patent application will involve the public notification of the application by the PRC Patents Registry after a period of 18 months has elapsed from the date on which the application was made. After such notification, the Registry will review such application which involves conducting searches, both in the PRC and internationally, to ascertain whether there is any existing patent registration in respect of identical or substantially similar DCPTA production knowhow. If the PRC Patents Registry is satisfied with such review, it will approve the patent application. Within 6 months of such registration, objections may be lodged. Once approved (and unless successfully challenged), the patent registration will be valid for a term of 20 years from the date of application. The entire registration process could take up to three years to complete. Hence, the Group does not expect the registration of its patent under application to be completed until 2002.

Trade mark

The “超大” trade mark is owned by the Chaoda Group and registered in the PRC for a term of 10 years expiring on 20th August, 2007. Pursuant to trade mark licensing agreements and supplemental agreements entered into between the Group's two principal operating subsidiaries, Xiamen Genben and Fuzhou Topmart, and Supreme Bonus (a company within the Chaoda Group) on 15th June, 1998, 6th July, 1999 and 9th September, 1999, respectively, Supreme Bonus granted to each of Xiamen Genben and Fuzhou Topmart the exclusive use of the “超大” trade mark and brand name in connection with the production and sale of PGR products in the PRC and Hong Kong for a fixed term of 25 years commencing from 15th June, 1998 (in respect of Xiamen Genben) and 6th July, 1999 (in respect of Fuzhou Topmart). The licence fee payable by Xiamen Genben to Supreme Bonus pursuant to its trade mark licence arrangement with Supreme Bonus is RMB200,000 for the first year of the term of the licence, and in each year thereafter, an annual sum equivalent to 1% of its total turnover per year, to be paid in arrears prior to 30th June each year. The licence fee payable by Fuzhou Topmart to Supreme Bonus pursuant to its trade mark licence arrangement with Supreme Bonus is an annual sum equivalent to 1% of its total turnover, to be paid in arrears prior to 31st July each year. Supreme Bonus has undertaken that it will pay in full the relevant fees for maintaining the registration of the “超大” trade mark with the relevant registration authorities in the PRC during the effective term of the agreements. It has also undertaken to apply for the renewal of the registration of the trade mark not later than six months before the expiry date of such registration during the term of the licensing agreements. Each of Xiamen Genben and Fuzhou Topmart on the one hand and Supreme Bonus on the other hand has undertaken to the other that it will not, without the prior written consent of the other party, sub-license the “超大” trade mark or otherwise allow any third party to enjoy any rights or obligations under any of the trade mark licensing agreements, except that Supreme Bonus may

assign its rights and obligations under such agreements if and at the same time as it sells the “超大” trade mark. In addition, Supreme Bonus has, in the supplemental agreements, undertaken to each of Xiamen Genben and Fuzhou Topmart that it will not manufacture or sell any type of PGRs other than the sale of the Group’s PGRs during the term of the trade mark licence.

RESEARCH AND DEVELOPMENT

The Group has a research and development group comprising 8 staff members, of whom one has a doctorate degree in agricultural science, two have masters degrees (one in biology and the other agro-chemistry) and five have bachelor degrees in either agricultural science or biochemistry. All of them have previous work experience with commercial or government research organisations. The research and development group is mainly responsible for research, analysis and development of new products, inspection and testing during production, and preparation of specific catalysts required in the production process.

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

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

The two new regulatory-type PGRs for rice and for tobacco that are currently in their final stages of development have been developed by the Group in cooperation with Hunan Hybrid Crop Research Centre and Henan Agricultural University Tobacco Research Centre respectively. Once development work has been completed, these new products will be subject to further thorough testing before commercial production commences. These new products are currently expected to be launched in March 2000.

The Group has started initial research studies on the development of a number of other new regulatory-type PGRs. These include the development of a PGR for fungi carried out in cooperation with the Fungi Development and Application Research Centre of the Fujian Agricultural School, a PGR for flowers carried out in cooperation with the Biology Department of the Liaoning Normal School, and a PGR for corn and for oil seeds carried out in cooperation with the Crop Biochemical Control Research Centre of the China Agricultural University.

INSURANCE

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

YEAR 2000 ISSUE

The trading relationships between the Group and its significant suppliers and customers are generally by written contracts and the nature of the transactions the Group currently conducts with them are not heavily dependent on computer software and systems. The Group, anyhow, has assessed its computer software and systems in relation to their ability to process accurately transactions with dates extending beyond the year 2000 and they are year 2000 compliant. The Directors believe that such action is adequate in protecting the Group from any material adverse effect that may arise with respect to the Year 2000 issue.

RELATIONSHIP WITH THE CHAODA GROUP

The Group has been selling its products to the Chaoda Group since July 1998. It has also been granted the exclusive right, by the Chaoda Group since July 1998, to use the “超大” trade mark and brand name in connection with the production and sale of PGR products. The Chaoda Group does not itself manufacture PGRs or (apart from the distribution of the Group's PGR products) sell any PGR products.

The Chaoda Group is a group of companies in the PRC and Hong Kong of which Mr. Kwok Ho is the chairman and in which he holds a controlling shareholding. Mr. Kwok Ho was a director of Loyal Faith, one of the Group's wholly-owned subsidiaries, during the period from 18th May, 1995 to 8th September, 1999. Except for his directorship in Loyal Faith during such period, Mr. Kwok Ho has not acted as director in any company within the Group. Mr. Kwok Ho also has not had any management responsibility in relation to Loyal Faith or any other company within the Group. For the two years ended 30th June, 1999, except for the 60% shareholding in Loyal Faith that Mr. Kwok Ho previously held on trust for Mr. Wu, Mr. Kwok Ho did not have, and does not currently have, any shareholding interest in any company within the Group.

Mr. Kwok Ho's spouse, Madam Chiu Na Lai, previously held a 30% shareholding in Loyal Faith during the period from 12th June, 1995 to 10th April, 1997. On 10th April, 1997 her shareholding in Loyal Faith was reduced to 10% as she transferred the beneficial ownership of a 20% shareholding to Mr. Wu (such 20% shareholding being then held on trust by Madam Chiu Na Lai for Mr. Wu). This transfer was made pursuant to an agreement between Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai whereby they provided funds to Loyal Faith, in the proportion of 80%, 10% and 10% respectively, to enable it to make its capital contribution to Xiamen Genben. At that time, Mr. Wu and Mr. Tung Fai became the beneficial owner of an 80% and a 10% shareholding in Loyal Faith respectively, and

BUSINESS

Madam Chiu Na Lai remained as a 10% shareholder in Loyal Faith (see the section headed “Business — Active Business Pursuits — Initial Business Developments”). Such shareholding interests reflect the proportion in which Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai provided their respective fundings to Loyal Faith. As part of the Reorganisation, in September 1999, Madam Chiu Na Lai transferred her 10% shareholding in Loyal Faith to Yut Yat and in return was allotted additional new shares in Yut Yat and became a 10% shareholder in Yut Yat. Immediately thereafter, she transferred a 6% shareholding in Yut Yat to Mr. Tung Fai (who thereby increased his shareholding in Yut Yat from 10% to 16%) at a cash consideration of HK\$8,100,000. The Company acquired the entire shareholding in Yut Yat and became the holding company of the Group on 11th November, 1999 and in return, Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai were allotted shares in the Company. Madam Chiu Na Lai currently holds a 4% shareholding in the Company, which will be reduced to 2.8% immediately after the completion of the Share Offer.

Madam Chiu Na Lai was a director of Loyal Faith for the period from 8th September, 1999 to 10th September, 1999, a director of Topmart for the period from 5th May, 1999 to 10th September, 1999 and a director of Yut Yat for the period from 24th May, 1999 to 10th September, 1999. Except for her directorships in Loyal Faith, Topmart and Yut Yat during such respective periods, Madam Chiu Na Lai has not acted as director in any company within the Group. Madam Chiu Na Lai also has not had any management responsibility in relation to Loyal Faith, Topmart, Yut Yat or any other company within the Group. Except for her shareholding interest described above, for the two years ended 30th June, 1999, she did not have, and does not currently have, any shareholding interest in any company within the Group.

By reason of the past directorships of Mr. Kwok Ho and Madam Chiu Na Lai in Loyal Faith and her past directorships in Topmart and Yut Yat, the sale of products made by the Group to the Chaoda Group and the licence fee paid by the Group to the Chaoda Group for the use of the “超 大” trade mark and brand name constituted related party transactions in the year ended 30th June, 1999. In that year, product sales to the Chaoda Group amounted to approximately HK\$6.1 million, while the amount of licence fee paid was HK\$187,000. While these transactions are expected to continue after the listing of the Shares on the GEM, they will cease to be related party transactions as Mr. Kwok Ho ceased to be a director of Loyal Faith and Madam Chiu Na Lai ceased to be a director of Loyal Faith, Topmart and Yut Yat in September 1999. As Mr. Kwok Ho and Madam Chiu Na Lai only ceased their directorships during the year ending 30th June, 2000, the above transactions would, for accounting purposes, still be treated as related party transactions for the year ending 30th June, 2000. Based on the existing shareholdings of the Group and directorships of the companies within the Group, the above transactions would not be treated as related party transactions for accounting purposes after the year ending 30th June, 2000.

Save as disclosed above, in each of the two years ended 30th June, 1998 and 1999, the Group had no other related party transactions. For more information about the related party transactions of the Group, please refer to note 3(h) to paragraph 3 of the accountants’ report in Appendix 1 to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS AND MANAGEMENT

The Board consists of 5 Directors (3 executive Directors and 2 independent non-executive Directors) and is accountable to the shareholders. The executive Directors have extensive experience in the PGR industry, most of them having worked in such industry for over five years. Brief details concerning each of the Directors are set out below.

Name	Age	Position
Mr. Wu	34	Chairman
Mr. Yang Zhuoya	34	Managing Director
Mr. Tung Fai	38	Executive Director
Mr. Lam Ming Yung	35	Independent Non-executive Director
Ms. He Zhongpei	64	Independent Non-executive Director

Executive Directors

Mr. Wu Shaoning, aged 34, is the Chairman of the Group. He graduated from the University of Xiamen with a bachelor degree in politics and economics. Thereafter, he attended the Hong Kong Macau Economics Study Programme at the University of Hong Kong for one year and obtained a masters degree in economics from the University of Xiamen. Mr. Wu has over 8 years of experience in trading business and the agricultural chemicals industry in the PRC. Mr. Wu is responsible for the overall management and operation of the Group, as well as its strategic planning and business development.

Mr. Yang Zhuoya, aged 34, is the Managing Director and responsible for research and development of the Group. He holds a doctorate degree in agricultural chemistry and plant nutrition. Mr. Yang joined the Group in 1998 and is primarily responsible for the Group's product research and development, as well as overseeing its production operations.

Mr. Tung Fai, aged 38, is an Executive Director. He holds a bachelor degree in economics from the Jiangxi Finance Institute in the PRC and joined the Group in 1998. Mr. Tung is primarily responsible for the Group's strategic planning and investment activities.

Independent Non-executive Directors

Professor He Zhongpei, aged 64, a Non-executive Director. She graduated from the Agronomy Department of China Agricultural University in 1957. She is presently a professor at the China Agricultural University, a member of the Agricultural Products Academic Committee, a member of the Professional Committee on Agricultural Products and Chemical Control of the National Association for the Promotion of Agricultural Technology, as well as a member of the editorial board of various agricultural publications. Professor He is also the author of 5 books and has published over 100 theses both nationally and internationally. Professor He was nominated as an Outstanding Female Scientist in the 4th International Women Conference in 1995.

Mr. Lam Ming Yung, aged 35, is a Non-executive Director. He graduated from the School of Law of Shanghai Eastern Chinese College of Politics and Jurisprudence in 1986 and was awarded the degree of bachelor of law. Mr. Lam started practising law in 1987 in Fujian Province in the PRC, and moved to Hong Kong in mid-1993. He was registered as a foreign lawyer with the Hong Kong Law Society in 1995, and is presently in private practice with a Hong Kong solicitors firm.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Senior management

Lin Jin, aged 27, is the production manager of the Group. She graduated from Beijing Chemical Engineering University with a professional certificate in chemical engineering and has over 4 years' experience in chemical engineering equipment design and technology development. She joined the Group in June 1998.

Yeh Jing Ping, aged 48, is the finance manager of the Group. She graduated from Fuzhou University with a bachelor degree in commerce and is also a qualified accountant in the PRC. She has over 15 years' experience in finance and accounting. She was formerly a finance manager of 福州電冰箱有限公司 (Fuzhou Refrigerator Company Limited) and a finance manager of 華榕超市集團有限公司 (Hua Yung Supermarket Group Limited) before she joined the Group in June 1998.

Gu Xue Mei, aged 27, is manager of the technology department of the Group. She graduated from Beijing Chemical Engineering University with a professional certificate in fine-chemical engineering and has over 4 years' experience in synthesizing and analysing chemical products. She began to assist Mr. Wu on the establishment of Xiamen Genben in February 1997.

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

AUDIT COMMITTEE

The following individuals have been appointed as members of the Company's audit committee:

Ms. He Zhongpei
Mr. Lam Ming Yung

The duties of the audit committee comprise generally the following matters:

1. reviewing, in draft form, the Company's annual report and accounts, half-year report and quarterly reports and providing advice and comments thereon to the Board. In this regard:
 - (a) members of the committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the committee must meet, at least once a year, with the Company's auditors; and
 - (b) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors; and
2. reviewing and supervising the Company's financial reporting and internal control procedures.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Employees

As at 30th June, 1999, the Group had a total of 86 full-time employees in Hong Kong and the PRC as detailed below:

	Hong Kong	PRC	Total
Management and administration	3	6	9
Sales and marketing	—	42	42
Purchasing	—	2	2
Finance and accounting	2	4	6
Research and development	—	7	7
Production	—	20	20
Total			<u>86</u>

The remuneration payable to the employees includes a basic salary, allowances and discretionary bonuses (except that in the case of sales personnel, only a sales commission is paid). The Group currently has no share option scheme in place but has conditionally adopted the Share Option Scheme as summarised in paragraph 13 in Appendix V. The Group provides on-the-job training to employees from time to time and the Group's technical personnel receives training from research institutions from time to time.

During the two years ended 30th June, 1999, the Group did not experience any material disruption in its operations due to labour disputes. The Directors believe that the Group maintains a good relationship with its employees.

Share Option Scheme

The Group has conditionally adopted the Share Option Scheme whereby full-time employees of the Group (including executive Directors) may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in paragraph 13 in Appendix V.

Indemnity

Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya, being the executive Directors of the Company, have given the following indemnities pursuant to a deed of tax indemnity and a general deed of indemnity, both dated 15th November, 1999, in favour of the Company and the subsidiaries against:

1. Hong Kong estate duty and certain other potential tax liabilities (other than those already disclosed or accrued in the Accountants' Report as set out in Appendix I to this prospectus or in other audited accounts of the Group) that may be incurred by the Company or the relevant subsidiary in relation to any transfer of property or any income, profits, gains earned, accrued or received on or before the date of the deed of tax indemnity;
2. any negligence, fraud, misrepresentations or other unlawful act or omission committed by any of Mr. Wu, Mr. Tung Fai or Mr. Yang Zhuoya on or before the date of the general deed of indemnity.

SHARE CAPITAL

	<i>HK\$'000</i>	<i>Approximate percentage of issued share capital</i>
Number of Shares		
<i>Authorised:</i>		
500,000,000	50,000	
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Share Offer:</i>		
2,000,000	200	0.80%
173,000,000	17,300	69.20%
67,500,000	6,750	27.00%
<u>7,500,000</u>	<u>750</u>	<u>3.00%</u>
<u>250,000,000</u>	<u>25,000</u>	<u>100.00%</u>

Notes:

1. Assumptions

The above table assumes the Share Offer and the Capitalisation Issue have become unconditional.

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

2. Ranking

The Offer Shares will rank pari passu in all aspects with all other Shares in issue save for the entitlement under the Capitalisation Issue. In particular, the Offer Shares will rank in full for all dividends and other distributions hereafter declared, made or paid on the Shares.

3. Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the scheme is set out in the paragraph 13 under the section headed “Statutory and general information — Share Option Scheme” in Appendix V.

Under the scheme, full-time employees and executive Directors of the Group may be given options which entitle them to subscribe for Shares representing up to a maximum of 10% of the issued share capital of the Company from time to time (not counting Shares which may be issued under the scheme).

4. General mandate to issue Shares

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

- a) 20% of the total nominal amount of the share capital of the Company issued and to be issued (as set out in the above table); and

SHARE CAPITAL

- b) the total amount of the share capital of the Company (if any) bought back by the Company under the general mandate to repurchase Shares.

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

This mandate will expire:

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

whichever is the earliest.

For further details of this general mandate, see paragraph 3(v) under the section headed "Further information about the Company — Resolutions of all shareholders of the Company passed on 21st September, 1999 and on 11th November, 1999" in Appendix V.

5. General mandate to repurchase Shares

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to buy back Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of the Company issued and to be issued (as set out in the above table) if the Share Offer becomes unconditional.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in paragraph 6 under the section headed "Further information about the Company — Repurchase by the Company of its own securities" in Appendix V.

This mandate will expire:

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

whichever is the earliest.

6. Convertible Securities

The Company has not issued any securities, debentures or loan notes convertible into shares of the Company.

MANAGEMENT, SIGNIFICANT AND SUBSTANTIAL SHAREHOLDERS

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

Name	Number of Shares owned		Percentage of total issued share capital and voting power exercisable in general meetings of the Company	
	before	immediately	before	immediately
	completion of	after	completion of	after
	the Share Offer	the Share Offer	the Share Offer	the Share Offer
Mr. Wu	1,600,000	140,000,000	80.0	56.0
Mr. Tung Fai	320,000	28,000,000	16.0	11.2

The following table sets forth certain information regarding ownership of Shares as of the Latest Practicable Date by all persons who are entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who are able, as a practical matter, to direct or influence the management of the Company and are management shareholders of the Group as defined in the GEM Listing Rules.

Name	Number of Shares owned		Percentage of total issued share capital and voting power exercisable in general meetings of the Company	
	before	immediately	before	immediately
	completion of	after	completion of	after
	the Share Offer	the Share Offer	the Share Offer	the Share Offer
Mr. Wu	1,600,000	140,000,000	80.0	56.0
Mr. Tung Fai	320,000	28,000,000	16.0	11.2

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

Mr. Wu and Mr. Tung Fai, both being the initial management shareholders of the Company, have each undertaken to the Company, ICEA and the Stock Exchange that for a period of 2 years from the date on which dealings in the Shares commence on the GEM of the Stock Exchange:

- (a) he will place in escrow, with an escrow agent acceptable to the Stock Exchange, the Shares owned by him as at the Latest Practicable Date referred to above and the Shares to be issued to him pursuant to the Capitalisation Issue (the “Relevant Shares”) on terms acceptable to the Stock Exchange;

MANAGEMENT, SIGNIFICANT AND SUBSTANTIAL SHAREHOLDERS

- (b) he will not, save as provided in rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his direct or indirect interest in the Relevant Shares;
- (c) in the event that he pledges or charges any direct or indirect interest in the Relevant Shares under rule 13.17(2) or pursuant to any right or waiver granted by the Stock Exchange pursuant to rule 13.17(5) of the GEM Listing Rules, he must inform the Company immediately thereafter, disclosing the details specified in the GEM Listing Rules; and
- (d) having pledged or charged any of his interest in the Relevant Shares under sub-paragraph (c) above, he must inform the Company immediately in the event that he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Shares affected.

The undertakings given by Mr. Wu and Mr. Tung Fai as the initial management shareholders of the Company referred to above have been given pursuant to the existing requirements of the GEM Listing Rules. In the event that the relevant requirements of the GEM Listing Rules are altered in future, such undertakings may be revised accordingly.

FINANCIAL INFORMATION

INDEBTEDNESS AND CAPITALISATION

Existing Indebtedness

As at 30th September, 1999, none of the companies within the Group had outstanding indebtedness, apart from intra-group liabilities and normal trade payables. In addition, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptances or acceptance credit, or any guarantees or other material contingent liabilities outstanding at the close of business on 30th September, 1999.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with internally generated cashflow. The Group may, in addition to employing internally generated cashflow, finance its expansion projects through the proceeds from the Share Offer.

As at 30th September, 1999, the Group had outstanding contracted capital commitments amounting to approximately HK\$0.3 million in respect of acquisition of fixed assets. Taking into consideration the net proceeds of the Share Offer and net operating cash inflow, the Directors are of the opinion that the Group has sufficient resources to service its debts and fund its capital commitments.

Net Current Assets

As at 30th September, 1999, the Group had net current assets of approximately HK\$6.3 million. Current assets comprised cash at bank and in hand of approximately HK\$1.1 million, inventories of approximately HK\$0.6 million, accounts receivable of approximately HK\$2.7 million, amount due from directors of approximately HK\$4.6 million and other current assets of approximately HK\$1.3 million. Current liabilities comprised other payables and accruals of approximately HK\$3.5 million and taxation payable of approximately HK\$0.5 million.

The Directors are of the opinion that, taking into account the financial resources available for the Group including internally generated funds and the net proceeds of the Share Offer, the Group has sufficient net current assets to satisfy its present requirements.

Financial Resources

The Company has historically relied on cashflow generated internally for its capital expenditures and other capital requirement. See “Financial Information — Indebtedness and Capitalisation”. Following the Share Offer, the Company expects to fund its future capital expenditures with the proceeds from the Share Offer and net operating cash inflow. See “Financial Information — Capital Expenditures”.

Working Capital

As at 30th September, 1999, the Group had working capital of HK\$6.3 million. Taking into account the net proceeds of the Share Offer (see “Future Plans and Business Objectives — Use of Proceeds”) and net operating cash inflow, the Directors of the Company are of the opinion that the Group has sufficient working capital for its present requirements.

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AUDITED TRADING RECORD

The combined audited results of the Group for each of the two years ended 30th June, 1998 and 1999 prepared on the basis that the existing Group structure was in place throughout the relevant periods and extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus, are summarised below:

	Years ended 30th June,	
	1998	1999
	HK\$'000	HK\$'000
Turnover	4,534	21,065
Cost of sales	<u>(1,975)</u>	<u>(5,961)</u>
Gross profit	2,559	15,104
Selling, general and administrative expenses	<u>(561)</u>	<u>(5,838)</u>
Profit before taxation	1,998	9,266
Taxation	<u>—</u>	<u>(286)</u>
Profit after taxation but before minority interests	1,998	8,980
Minority interests	<u>(746)</u>	<u>(3,458)</u>
Profit attributable to shareholders	<u>1,252</u>	<u>5,522</u>
Dividends	<u>—</u>	<u>4,000</u>
Earnings per share ⁽¹⁾	<u>0.72 cents</u>	<u>3.16 cents</u>

Note 1: The calculation of earnings per Share is based on the combined profit after taxation and minority interests of the Group for each of the two years ended 30th June, 1998 and 1999 and a total of 175,000,000 Shares in issue after the Capitalisation Issue during such years.

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

Results of operations — 1999 compared to 1998

Turnover:

For the year ended 30th June, 1999, the Group's turnover increased by approximately HK\$16.6 million, or 365%, to HK\$21.1 million from HK\$4.5 million for the year ended 30th June, 1998. There was a significant increase in turnover as the year ended 30th June, 1998 was the Group's first full year of operation after its establishment. As the regulatory-type PGR developed by the Group in 1997 was a new product when it was introduced in the PRC market in 1998, the Group's sales were relatively low during its first year of operation as it had to spend time to introduce the product to its potential customers.

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Although demand for the Group's PGR product kept increasing since it was first launched in 1997, the Group's initial production capacity could not keep up with the pace of such increasing demand. The Group achieved a utilisation rate of 97% in respect of its production facility for the year ended 30th June, 1998. In July 1998, the Group increased its annual production capacity from 40 tonnes to 180 tonnes. The Group further improved its production efficiency and was able to fully utilise its production facility during the year ended 30th June, 1999. For the year ended 30th June, 1998, the Group produced only the general purpose regulatory-type PGR. From July 1998, the Group replaced its general purpose PGR with two new specific purpose regulatory-type PGRs for vegetables and for fruits. These new products were well-received by the Group's customers and their success contributed to the significant increase in turnover of the Group for the year ended 30th June, 1999.

Turnover of the two specific purpose PGRs for vegetables and for fruits amounted to HK\$10.4 million and HK\$10.7 million respectively, representing approximately 49.4% and 50.6% respectively, of the Group's total turnover for the year ended 30th June, 1999. Turnover of the general purpose PGR amounted to HK\$4.5 million, representing 100% of the Group's turnover for the year ended 30th June, 1998. The unit selling price for all products remained the same for each of the two years ended 30th June, 1998 and 1999 at RMB125,000 per ton. In terms of quantity, the Group sold 38.8 tonnes of the general purpose PGR for the year ended 30th June, 1998 and sold 88.9 tonnes and 91.1 tonnes of the PGRs for vegetables and for fruits respectively for the year ended 30th June, 1999.

Operating Profit:

For the year ended 30th June, 1999, the Group's operating profit increased by approximately HK\$7.3 million, or 364%, to HK\$9.3 million from HK\$2.0 million for the year ended 30th June, 1998, correlated to the increase in the Group's turnover for the respective periods. Gross profit amounted to HK\$2.6 million and HK\$15.1 million for the two years ended 30th June, 1998 and 1999 respectively, while gross profit margin was 56.4% and 71.7% respectively. The increase in the Group's gross profit margin was attributable to improvements in production efficiency. Operating profit represents gross profit less administrative and selling expenses. Operating expenses for the two years ended 30th June, 1998 and 1999 were HK\$0.6 million and HK\$5.8 million respectively. As a percentage of turnover, operating profit decreased slightly to 44.0% from 44.1% for the respective periods. For the year ended 30th June, 1999, administrative expenses increased by 1,150% to HK\$2.5 million from HK\$0.2 million for the year ended 30th June, 1998. As a percentage of turnover, administrative expenses increased to 12.2% from 4.2% for the respective periods. Such increase reflected primarily (i) the additional expenses incurred in establishing the Group's research and development group in July 1998, and (ii) the licensing fees paid to the Chaoda Group for the use of the "超大" trademark amounting to RMB200,000. For the year ended 30th June, 1999, selling expenses increased by 725% to HK\$3.3 million from HK\$0.4 million for the year ended 30th June, 1998. As a percentage of turnover, selling expenses increased to 15.5% from 8.2% for the respective periods. Such increase reflected primarily (i) the significant increase in advertising and promotion expenses to HK\$1.3 million for the year ended 30th June, 1999 from HK\$30,000 for the year before, and (ii) the commencement of commission payment to the Group's sales personnel in the total amount of HK\$1.7 million for the year ended 30th June, 1999. The Group's net financial expense for the two years ended 30th June, 1998 and 1999 were considered immaterial.

Taxation:

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong. Xiamen Genben, a subsidiary of the Group established in the PRC, is subject to PRC enterprise income tax at the rate of 15%. However, it is exempted from such enterprise income tax for two years

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starting from its first year of profitable operation after offsetting prior year losses, followed by a 50% reduction in the next three years. The two-year tax exemption period of Xiamen Genben expired on 31st December, 1998 and it is subject to PRC enterprise income tax at the reduced rate of 7.5% for the six months ended 30th June, 1999.

In addition, no provision for the PRC value-added tax (which, if payable, would have been charged at a rate of 13%) relating to the sales of the Group's products was made as the Group's products are classified as agricultural pesticides which are exempted from value-added tax under PRC tax regulations.

Profit Attributable to Shareholders:

Profit attributable to the Group's shareholders for the year ended 30th June, 1999 increased by approximately HK\$4.2 million, or 341%, to HK\$5.5 million from HK\$1.3 million for the year ended 30th June, 1998.

Property, Plant and Equipment:

As of 30th June, 1999, fixed assets of the Group, which comprised mainly of production facility and office equipment, amounted to approximately HK\$1.5 million (net of accumulated depreciation of approximately HK\$0.8 million), compared to approximately HK\$2.1 million as of 30th June, 1998. There were no material additions or disposals during the year ended 30th June, 1999. The decrease mainly resulted from the depreciation charge of approximately HK\$0.5 million for the year ended 30th June, 1999.

PROFIT FORECAST, DIVIDEND POLICY, WORKING CAPITAL AND DISTRIBUTABLE RESERVES

Profit forecast

The Directors forecast that, on the bases and assumptions set out below and in Appendix II to this prospectus and in the absence of unforeseen circumstances, the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2000 (the "Forecast") will be not less than HK\$28.2 million.

As stated in the section headed "Future Plans and Business Objectives", the Group intends, subject to the completion of the acquisition of the new site at Fuzhou Cangshan Hi-Tech Science Park shortly after the completion of the Share Offer, to construct a new production facility on such site which will initially be equipped with four new production lines. One of them will be used for the production of PGR for fruits, one for the production of PGR for tobacco and two for the production of PGR for rice (the PGR for tobacco and for rice being new products that the Group plans to launch in March 2000). The Group expects that the construction of the new production facility and the installation and testing of the four new production lines will be completed by February 2000. The Directors believe that the Group will be able to achieve this timing as the production plant proposed to be constructed at the Fuzhou site will be a relatively simple single-storey structure. Basic foundation work has already been completed on the site. Further, the Group intends to purchase the equipment required for the new production lines from the manufacturer who previously manufactured the equipment that Fuzhou Topmart is currently using in its production line, and who, therefore, is familiar with the design and specifications of the equipment required. The production equipment that

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Fuzhou Topmart is currently using in its production line was manufactured, installed and tested within a three-month period. As the equipment required for the new production lines is substantially similar, the Directors expect that a similar period of time would be required for manufacture, installation and testing.

For the year ended 30th June, 1999, the Group's turnover increased by approximately HK\$16.6 million (approximately 365%) to HK\$21.1 million from the year ended 30th June, 1998 (being the Group's first full year of operation). In these two years, the Group had been producing close to or at its full capacity and it was able to sell, in full, the total quantity of the PGRs that it produced. On the basis of the Group's market research and indication of demand from customers (as further described below), the Directors believe that there will be sufficient market demand to absorb the total quantity of PGRs that the Group expects to produce in the year ending 30th June, 2000 (with its two existing production lines operating at full capacity and the four new production lines operating at approximately 90% of their capacity which the Directors believe to be achievable on the basis of past experience). On such basis, the Directors expect that for the year ending 30th June, 2000, the Group will achieve an increase in turnover by approximately HK\$82.8 million (approximately 393%) to HK\$103.9 million from the previous year, of which approximately HK\$62 million is expected to be generated from the Group's existing production capacity and approximately HK\$41.9 million is expected to be generated from the Group's four new production lines (on the basis that they commence production in March 2000). Of the HK\$62 million turnover expected to be generated from the Group's existing production capacity, the Group has already received confirmed orders with a total value of approximately HK\$53.3 million (approximately 85.2%) from its customers. Of the HK\$41.9 million turnover expected to be generated from the Group's four new production lines, the Group has signed letters of intent with its customers having a total value of approximately HK\$24.6 million (approximately 59.6%).

Investors should appreciate that (i) the completion of the Group's new production facility at Fuzhou, the commencement of production of the four new production lines at such facility, and such production lines being able to achieve close to their full capacity within the expected timing described above, and (ii) the existence of sufficient market demand to enable the Group to achieve the projected turnover for the year ending 30th June, 2000 described above are both key assumptions on which the Forecast is based. At present, the Directors are not aware of, nor do they expect, any extraordinary items to arise during the year ending 30th June, 2000.

On the basis of the Forecast and assuming the weighted average number of 219,877,049 Shares expected to be in issue during the year ending 30th June, 2000, the forecast earnings per Share will be approximately HK\$0.128, representing a weighted average prospective price/earnings multiple of 9.4 times based on an Issue Price of HK\$1.20 per Share. On a pro forma fully diluted basis and on (i) the assumption that the Share Offer had been completed and a total of 250,000,000 Shares were in issue throughout the year ending 30th June, 2000; and (ii) the assumption that the interest income that would have been earned on the net proceeds of the Share Offer had been received on 1st July, 1999, based on an interest rate of 4.5% per annum, net of tax, between that date and the expected date of receipt of the net proceeds, the forecast earnings per Share is HK\$0.119. This represents a pro forma fully diluted price/earnings multiple of 10.1 times based on an Issue Price of HK\$1.20 per Share.

The calculation of the forecast earnings per Share on a weighted average basis and on a pro forma fully diluted basis takes no account of any Shares which may be issued on the exercise of any options granted under the Share Option Scheme or which may be issued and/or repurchased by the Company pursuant to the general mandates referred to in paragraph 6 under the section headed "Further Information About The Company" in Appendix V to this prospectus or otherwise.

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The texts of the letters from Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd., the auditors and reporting accountants and from ICEA in respect of the profit forecast are set out in Appendix II to this prospectus.

Dividend policy

The Directors do not presently intend to recommend any dividend in respect of the year ending 30th June, 2000. However, had the Company been a publicly listed company for the whole of the year ending 30th June, 2000, the Directors would have expected to have declared an interim dividend and a final dividend of approximately HK\$0.022 per Share. This would have represented a prospective dividend yield of approximately 1.83% at the Issue Price.

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

Working capital

The Directors are of the opinion that, after taking into account the net proceeds of the Share Offer and net operating cash inflow, the Group has sufficient working capital for its present requirements.

Distributable reserves

As at 30th September, 1999, the Company had no reserve available for distribution to shareholders.

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ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the combined net tangible assets of the Group as at 30th June, 1999 as set out in the Accountants' Report in Appendix I to this prospectus, adjusted as shown below:

	<i>HK\$'000</i>
Net tangible assets of the Group as at 30th June, 1999	2,099
Combined profit of the Group as shown in the management accounts for the three months ended 30th September, 1999	5,009
Estimated net proceeds from the Share Offer	<u>79,400</u>
Adjusted net tangible assets	<u><u>86,508</u></u>
Adjusted net tangible asset value per Share (<i>Note</i>)	<u><u>HK\$0.346</u></u>

Note: It is based on the 250,000,000 Shares expected to be in issue upon the completion of the Share Offer, but taking no account of any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme or on the exercise by the Directors of the general mandates granted to them to allot and issue Shares, or Shares which may be repurchased by the Company.

NO MATERIAL CHANGE

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Company or its subsidiaries since 30th June, 1999.

FUTURE PLANS AND BUSINESS OBJECTIVES

PRINCIPAL STRENGTHS OF THE GROUP

The Directors believe that the principal strengths of the Group are as follows:

1. *The Only Producer of Regulatory-Type PGRs in China with Significant Expansion Potential*

The Group is currently the only producer of regulatory-type PGRs in the PRC. The more technologically advanced nature of its regulatory-type PGRs compared to hormone-type PGRs, in the Directors' view, provides the Group with its key competitive advantage. Research information compiled by 福建省石油化學工業廳 (the Department of Petroleum and Chemical Industry of Fujian Province) in 1999 estimated that the total annual potential consumption volume of PGRs in the PRC could reach 160,000 tonnes when the actual total production volume in 1998 only amounted to less than 10% of such potential consumption volume. This information suggests that other than developing the Group's market among existing hormone-type PGR customers, there is also significant untapped market potential among farmers who do not currently use any kind of PGR.

2. *High Profit Margin*

In each of the two years ended 30th June, 1998 and 1999, the Group had an operating profit margin before taxation and minority interests of approximately 44%. This is calculated after taking into account sales and promotion expenses which are expected to be relatively higher in the initial stages of the Group's development. The Group has full discretion in determining product prices in the light of market conditions. With its low cost structure, the Group has a significant degree of flexibility in determining its market strategy in the event of increased competition or unforeseeable market changes in the future.

3. *Continuing Research and Development to Maintain Competitive Advantage Over Competitors*

The Directors fully understand the importance of safeguarding the confidentiality of the Group's production knowhow as well as placing continuous emphasis on research and development to improve product quality and to develop a more diversified range of products. The Group has reached the final stages of the development of two new regulatory-type PGRs, one for tobacco and the other for rice. These products are expected to be launched in the market in early 2000. The Group has also commenced the development of other new regulatory-type PGRs for fungi, flowers, corns and oil seeds, each of which is expected to take over two years from initial research and development to commencement of commercial production. The Group believes that the continuous consolidation of its leading position in technology and research and development is key to further strengthening its competitive advantages over its competitors.

4. *Extensive Sales Network and Well Recognised Brand Name*

All of the Group's products are sold under the “超大” trade mark and brand name which are owned by the Chaoda Group. The Chaoda Group is one of the leading suppliers of organic fertilisers in the PRC and its “超大” trade mark and brand name are well-established in the PRC agricultural industry, and such market recognition has benefitted, and the Directors expect will continue to benefit, the Group's sales. The Chaoda Group is also the Group's largest customer as it is able to utilise its well-established distribution network that has direct access to

FUTURE PLANS AND BUSINESS OBJECTIVES

agricultural communities throughout the PRC for the distribution of the Group's products. The Group also sells its products to various provincial agricultural resources companies and provincial agricultural technology promotion centres, all of which are government operated entities serving farmers throughout the PRC. The Directors believe that the combination of the Chaoda Group, the provincial agricultural resources companies and the provincial agricultural technology promotion centres provides the Group with a strong and comprehensive sales and distribution network throughout China.

5. *Government Awards and Support*

Since their initial stages of development, the Group's products have received various awards presented by governmental or industry bodies. In September 1997, the Group's DCPTA-based regulatory-type PGR was promoted by the State Science and Technology Commission on a nationwide basis and listed under '九五' 國家科技成果重點推廣計劃 (the National Priority Promotion Programme of Scientific Achievement of the ninth Five-Year Plan). In August 1998, 農業部全國農技推廣服務中心 (the National Agricultural Technology Promotion Service Centre of the Ministry of Agriculture) also promoted the Group's products to all agricultural technology centres throughout China. To the knowledge of the Directors, the Group's products have, so far, been the only PGR products promoted by 農業部全國農技推廣服務中心 (the National Agricultural Technology Promotion Service Centre of the Ministry of Agriculture) in recent years.

6. *Strong Management Team*

The Group has an experienced management team, key members of whom have extensive experience and technical expertise in the PRC PGR industry. Most of the key management members have been involved with the Group's operations since the early stages of its establishment.

FUTURE PLANS AND BUSINESS OBJECTIVES

Overall business objectives

The Group's overall business objectives are:

- to maintain its position as the leading producer of regulatory-type PGRs in the PRC; and
- to build upon the success of its two specific purpose PGRs for vegetables and for fruits and to further develop new specific purpose PGRs for a more diversified range of agricultural produce.

In 1998, there were over 100 producers of hormone-type PGRs in the PRC, while the Group was, and currently remains to be, the only producer of regulatory-type PGRs. In that year, the total production volume of PGRs in the PRC was approximately 15,000 tonnes, and the Group produced 180 tonnes of regulatory-type PGRs during the year ended 30th June, 1999. According to research information compiled by 福建省石油化學工業廳 (the Department of Petroleum and Chemical Industry of Fujian Province) in 1999, it was estimated that the total annual potential consumption volume of PGRs in the PRC could reach 160,000 tonnes. Hence, the Directors believe that there is significant market potential for regulatory-type PGRs both as a substitute product for hormone-type PGRs among existing users and as a new product among farmers who do not currently use any kind of PGRs.

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The Directors consider that the key competitive strength of the Group lies in the more technologically advanced nature of its products. The technical knowhow that is key to the production of the Group's products has been developed by Mr. Wu over a period of more than four years from early 1992. To the knowledge of the Directors, none of the producers of hormone-type PGRs in the PRC currently possesses the technical knowhow required for the production of regulatory-type PGRs. The Group currently faces a minimal degree of competition from imported PGRs as the import of PGRs into the PRC is subject to an import tariff of 13%. While the Group may face increased competition if such import tariff were to be abolished or significantly reduced, any imported product would still first have to comply with the PRC government's product registration and testing requirements which and it may take at least two years before such product can be sold in the PRC. The Directors also believe that even if the prices of imported PGRs were to be lowered in future, there would be sufficient cost margin for the Group's products to maintain their price competitiveness.

The most important part of the Group's production technology relates to the production of the base chemical of DCPTA from which specific purpose PGRs for different agricultural produce are produced. In comparison, the production of DCPTA requires a higher level of technical knowhow than the production of different types of specific purpose PGR using DCPTA as a base chemical. Hence, in terms of technology development, the Group has already completed the more critical part of the development of its production knowhow. This enables the Group to focus on the development of new specific purpose PGRs for a more diversified range of agricultural produce.

As its products are still relatively new to the PRC market, the Group will also continue to focus on increasing sales promotion and market education, particularly in relation to new products that are expected to be launched by the Group.

The specific business objectives of the Group for the remainder of the year ending 30th June, 2000 and the two financial years thereafter are set out below. Investors should note the bases and assumptions set out below subject to which such business objectives have been stated. In considering the specific business objectives of the Group for the remainder of the year ending 30th June, 2000, investors should refer to the profit forecast of the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2000 set out in the section headed "Financial Information — Profit Forecast" and the assumptions on which such forecast is based as set out in that section and in Appendix II to this prospectus.

Specific business objectives for the remainder of the year ending 30th June, 2000

In early 1999, the Group started the development of two new regulatory-type PGRs, one for rice, which is being developed in cooperation with Hunan Hybrid Crop Research Centre, and the other for tobacco, which is being developed in cooperation with Henan Agricultural University Tobacco Research Centre. These products are in their final stages of development. The Group expects to start commercial production of these products in March 2000.

In September 1999, the Group signed a letter of intent with 福州市科技園區倉山管理辦公室 (Fuzhou Cangshan Hi-Tech Science Park Management Office) (an independent third party) for the acquisition of the land use rights to a vacant site of approximately 20,000 sq.m. at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province. The land use rights will have a term of 50 years. The

FUTURE PLANS AND BUSINESS OBJECTIVES

consideration payable to Fuzhou Cangshan Hi-Tech Science Park Management Office is RMB8,400,000. In addition, the Group has to pay any land use rights fees and other fees and tax assessed and charged by the relevant governmental authorities. The Group expects to complete the acquisition of such site shortly after the completion of the Share Offer.

The Group intends to use the Fuzhou site for the construction of a new production facility comprising one production plant (which, initially, will be equipped with four production lines), a warehouse and an office building. The new facility will be owned and operated by Fuzhou Topmart. Of the four production lines that will be constructed, one will be used for the production of PGR for fruits, one for the production of PGR for tobacco and the remaining two for the production of PGR for rice. These production lines will each have an annual production capacity of 280 tonnes of PGRs.

The acquisition cost of the Fuzhou site and the construction costs of the new production facility on such site are estimated to amount to approximately HK\$15,000,000. The total costs of establishing the four new production lines at such new facility are estimated to amount to approximately HK\$20,000,000. The Group intends to finance these amounts out of the net proceeds of the Share Offer. Subject to the completion of the site acquisition, the Group expects construction to commence in December 1999 and to be completed by February 2000. The four new production lines are expected to commence commercial production in March 2000.

By the end of the year ending 30th June, 2000, the Group expects to have in operation its two existing production lines in Xiamen operated by Xiamen Genben and Fuzhou Topmart respectively, and the four new production lines in Fuzhou to be operated by Fuzhou Topmart. The Group's total annual production capacity will then be increased to 1,680 tonnes of PGRs. The Group estimates that the production volume of PGR for vegetables, fruits, tobacco and rice will then reach approximately 250 tonnes, 390 tonnes, 100 tonnes and 200 tonnes respectively.

The Group currently has eight sales centres located in Beijing, Shandong Province, Jiangsu Province, Henan Province, Hubei Province, Shaanxi Province, Sichuan Province and Fujian Province respectively and employs a total of 45 sales personnel. To enable the Group to increase the promotion of its products, the Group plans to employ approximately 100 additional sales staff. The Group also plans to increase its advertising and promotion activities particularly in relation to the two new PGRs for tobacco and for rice expected to be launched during the year. The Group estimates that a total amount of approximately HK\$7,000,000 will be incurred during the year ending 30th June, 2000 in connection with the hiring of additional sales staff and the advertising and promotion activities. The Group intends to finance this amount out of the net proceeds of the Share Offer.

Specific business objectives for the year ending 30th June, 2001

In addition to the development of the new PGR for rice and for tobacco, during 1999, the Group also started initial research studies on the development of a number of other new regulatory-type PGRs. These include the development of a PGR for fungi carried out in cooperation with the Fungi Development and Application Research Centre of the Fujian Agricultural School, a PGR for flowers carried out in cooperation with the Crop Biology Department of Liaoning Normal School, and a PGR for corn and for oil seeds carried out in cooperation with the Crop Biochemical Control Research Centre of the China Agricultural University. The Group expects that the research and development work on the PGR for fungi and for flowers (including testing and field experiments) will be completed before the end of 2000. The Group intends to launch the PGR for fungi and for flowers in the first half of 2001.

FUTURE PLANS AND BUSINESS OBJECTIVES

The total costs for the research and development of the four new products referred to above are estimated to amount to approximately HK\$10,000,000, of which approximately HK\$6,000,000 are expected to be incurred during the year ending 30th June, 2001 and which the Group intends to finance out of the net proceeds of the Share Offer. The Group also estimates that a further amount of approximately HK\$3,000,000 of the net proceeds of the Share Offer will be used as part of sales and promotion expenses during the year.

The Group plans to construct two additional production lines at Fuzhou Topmart's production facility in Fuzhou, one of which will be used for the production of PGR for fungi and the other for the production of PGR for flowers. The Group estimates that the total costs of constructing the two new production lines will amount to HK\$10,000,000 which the Group intends to finance from its internal resources. These production lines will each have an annual production capacity of 280 tonnes of PGR. They are expected to be completed in early 2001, with commercial production targetted to commence in the first half of 2001.

In addition to the introduction of the new PGR for fungi and for flowers, the Group may, depending on market conditions and the performance of each of its products, also expand the production of its other products then in production.

By the end of the year ending 30th June, 2001, the Group expects to have eight production lines in operation with a total annual production capacity of 2,240 tonnes of PGRs. The Group estimates that the production volume of PGR for vegetables, fruits, tobacco, rice, fungi and flowers will then reach approximately 280 tonnes, 560 tonnes, 280 tonnes, 560 tonnes, 280 tonnes and 280 tonnes respectively.

Specific business objectives for the year ending 30th June, 2002

The Group expects that the research and development work on the PGR for corn and for oil seeds will be completed before the end of 2001. The Group plans to launch the new PGR for corn and for oil seeds in the first half of 2002. The remaining amount of HK\$4,000,000 of the estimated total costs for the research and development of the four new PGRs for fungi, flowers, corn and oil seeds is expected to be incurred in the year ending 30th June, 2002.

The Group plans to construct two additional production lines at Fuzhou Topmart's production facility in Fuzhou, one of which will be used for the production of PGR for corn and the other for the production of PGR for oil seeds. The Group estimates that the total costs of constructing the two new production lines will amount to approximately HK\$10,000,000 which the Group intends to finance from its internal resources. These production lines will each have an annual production capacity of 280 tonnes of PGRs. They are expected to be completed in early 2002, with commercial production targetted to commence in the first half of 2002.

In addition to the introduction of the new PGR for corn and for oil seeds, the Group may, depending on market conditions and the performance of each of its products, also expand the production of its other products then in production.

By the end of the year ending 30th June, 2002, the Group expects to have ten production lines in operation with a total annual production capacity of 2,800 tonnes of PGRs. The Group estimates that the production volume of PGR for vegetables, fruits, tobacco, rice, fungi, flowers, corn and oil seeds will then reach approximately 280 tonnes, 560 tonnes, 280 tonnes, 560 tonnes, 280 tonnes, 280 tonnes, 280 tonnes and 280 tonnes respectively.

FUTURE PLANS AND BUSINESS OBJECTIVES

Bases and assumptions

The Group's business objectives stated above are subject to the following bases and assumptions:

1. The Group is not affected by any of the risk factors set out under the section headed "Risk Factors".
2. The business objectives for any of the specified periods have been stated on the basis that they may have to be revised or adjusted by the Group from time to time in the light of factors such as changes in market conditions, market response to particular products 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 its stated business objectives in any of the specified periods (which could arise, for instance, in connection with the construction of new production facilities).
3. The Group does not encounter any significant difficulty in the research and development of any of its new products.
4. The acquisition of the land use rights to the new site at Fuzhou Cangshan Hi-Tech Science Park, for which the Group has signed a letter of intent (and a supplement thereto), will be completed shortly after the completion of the Share Offer. The letter of intent is not a legally binding agreement. As the Group is expected to pay the full purchase consideration of RMB8,400,000 when it enters into a legally binding land use right transfer contract, the Group can only do so after the completion of the Share Offer when the net proceeds are available for funding the payment of such purchase consideration. If the Group is unable to complete the acquisition of this new site (where, for instance, it is sold to another party before a legally binding land use right transfer contract is executed by the Group), the Directors are confident that the Group will be able to find an alternative location for the construction of its new production facility.
5. The Group is not materially adversely affected by any change in political, legal, fiscal or economic conditions in Hong Kong and the PRC.
6. The Group is not materially adversely affected by any change in legislation, rules or regulations in Hong Kong, the PRC or the British Virgin Islands (where the Group's subsidiaries are established and/or operate) or the Cayman Islands where the Company is established.
7. The Group is not materially adversely affected by any change in prevailing interest or foreign currency exchange rates.

FUTURE PLANS AND BUSINESS OBJECTIVES

USE OF PROCEEDS

The net proceeds from the Share Offer, after deducting related expenses, are estimated to be approximately HK\$79.4 million based on the Issue Price of HK\$1.20 per Share. The Company intends to apply the net proceeds in the following manner:

- approximately HK\$15,000,000 for payment of the cash consideration of RMB8,400,000, payment of land use rights fees and other fees and taxes charged by the relevant PRC governmental authorities in respect of the acquisition of the land use rights to a site of approximately 20,000 sq.m. at Fuzhou Cangshan Hi-Tech Science Park in Fuzhou, Fujian Province from 福州市科技園區倉山管理辦公室 (Fuzhou Cangshan Hi-Tech Science Park Management Office) of East Wing, Lin Ce Xu Complex, Bai Hu Ting, Cangshan District, Fuzhou, Fujian Province (an independent third party) and financing the construction of a new production facility comprising a production plant, a warehouse and an office building on such site;
- approximately HK\$20,000,000 for the establishment of four new production lines at the new production facility to be constructed in Fuzhou, of which one will be used for the production of PGR for fruits, one for the production of PGR for tobacco and the remaining two for the production of PGR for rice;
- approximately HK\$10,000,000 for the research and development of four new regulatory-type PGRs for fungi, flowers, corn and oil seeds;
- approximately HK\$10,000,000 for advertising and promotion of new products as well as expanding the sales force; and
- the balance is expected to be used as general working capital of the Group.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are set out in the section headed “Risk Factors”. You should read that section carefully before you decide to invest in the Shares.

UNDERWRITING

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

The Underwriting Agreement was entered into on 15th November, 1999. The Company is offering the New Issue Shares for subscription on and subject to the terms and conditions of this prospectus and the application forms relating thereto and the Placing Shares on and subject to the terms and conditions of the Placing. Subject to the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued as mentioned herein on or before 16th December, 1999, and to certain other conditions set out in the Underwriting Agreement, the New Issue Underwriters have agreed severally to subscribe or procure subscribers on the terms and conditions of this prospectus and the application forms for the Shares which are being offered but are not taken up under the New Issue. The Sole Placing Underwriter has agreed to subscribe or procure subscribers for the Placing Shares on and subject to the terms and conditions of the Placing.

Grounds for termination

The respective obligations of the New Issue Underwriters and the Sole Placing Underwriter to subscribe or procure subscribers for the Shares are subject to termination if certain grounds occur at any time prior to 5:00 p.m. on the second business day (excluding Saturday) after the closing of the application lists (the "Termination Time"), which is expected to be on 23rd November, 1999. The grounds for termination include, inter alia, circumstances where, before the Termination Time:

- (1) there shall develop, occur, exist or come into effect:
 - (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or
 - (b) any change in, or any event or series of events resulting or likely to result in any change in Hong Kong, the PRC, national or international financial, currency, political, military, industrial, economic or market conditions; or
 - (c) any change in the conditions of Hong Kong, the PRC or international equity securities or other financial markets; or
 - (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the GEM of the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (e) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the British Virgin Islands or the PRC or elsewhere; or
 - (f) any change in the business or in the financial or trading position of the Group,

UNDERWRITING

which, in the opinion of ICEA (for itself and on behalf of the other Underwriters):

- (i) is or will or is likely to be materially adverse to the business, financial condition or prospects of the Group taken as a whole; or
 - (ii) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the full subscription of all of the Offer Shares; or
 - (iii) makes it inadvisable or inexpedient to proceed with the Share Offer; or
- (2) there comes to the notice of ICEA any matter or event showing any of the representations, warranties and undertakings contained in the Underwriting Agreement given by, inter alia, the Company and the executive Directors to the Underwriters to be untrue or inaccurate or misleading or as having been breached in any respect considered by ICEA to be material; or
- (3) there comes to the notice of ICEA any breach on the part of the Company or any of the executive Directors of any of the provisions of the Underwriting Agreement in any respect considered by ICEA to be material.

Commissions

The Underwriters will receive a commission of 3.5% of the aggregate issue price payable for the New Issue Shares and Placing Shares, out of which they will pay any sub-underwriting commissions, and ICEA will also receive a documentation fee. Such fee and commissions, together with the Stock Exchange listing fees, legal and other professional fees, printing, and other expenses relating to the Share Offer, which are estimated to amount to approximately HK\$10.6 million in aggregate, will be payable by the Group.

Undertaking

The Company has undertaken to the Underwriters in the Underwriting Agreement that it will not without the prior written consent of ICEA and unless in compliance with the requirements of the GEM Listing Rules, at any time after the date of the Underwriting Agreement up to and including the date falling 6 months after the date on which dealings in the Shares commence on the GEM of the Stock Exchange, allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options or rights over any Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or has any intention to do so, except pursuant to the Share Offer, the Capitalisation Issue or the Share Option Scheme.

Underwriters' interests in the Company

ICEA has entered into an agreement with the Company on 15th November, 1999 to act as the sponsor (as defined in the GEM Listing Rules) of the Company for the period from the date on which dealings in the Shares commence on the GEM of the Stock Exchange to 30th June, 2002. Save as disclosed above and its obligations under the Underwriting Agreement, none of the Underwriters has any shareholding interests in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

STRUCTURE OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The price payable by applicants is HK\$1.20 per Share plus 1% brokerage and a 0.011% Stock Exchange transaction levy on the Issue Price.

CONDITIONS

Acceptance of all applications for the Share Offer will be conditional upon:

- (i) listing of and permission to deal in the Shares in issue and to be issued as described in this prospectus having been granted by the GEM Listing Committee of the Stock Exchange; and
- (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by ICEA on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise,

in each case on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 16th December, 1999, being the date which is 30 days after the date of this prospectus. If these conditions are not fulfilled, all application monies will be returned, without interest, on the terms set out in the section “How to Apply for New Issue Shares” below. In the meantime, such monies will be held in a separate bank account with the receiving banker or other licensed bank(s) in Hong Kong.

OFFER MECHANISM — BASIS OF ALLOCATION OF SHARES

The Share Offer

The Share Offer consists of the Placing and the New Issue. The 75,000,000 Shares being offered under the Share Offer will represent 30% of the Company’s enlarged share capital immediately after the completion of the Share Offer. The Company has to ensure that at least 25% of its issued share capital is held by the public in accordance with the requirements of the GEM Listing Rules from time to time.

Subject to possible reallocation on the basis set forth below, 7,500,000 Shares, representing approximately 10% of the Share Offer, will be offered to the public in Hong Kong under the New Issue and 67,500,000 Shares, representing approximately 90% of the Share Offer, will be placed with professional and institutional investors in Hong Kong and elsewhere under the Placing.

The Placing Shares will be allocated prior to the commencement of trading of the Shares on the Stock Exchange. The levels of indication of interest in the Placing and the basis of allotment and the results of application under the New Issue are expected to be published in the South China Morning Post in English and in the Hong Kong Economic Times in Chinese and on GEM Website on or before 23rd November, 1999.

The Placing

The Company is initially offering 67,500,000 Placing Shares, representing approximately 90% of the total number of Shares being offered in the Share Offer, for subscription by way of the Placing. The Placing is fully underwritten by the Sole Placing Underwriter subject to the the terms and conditions of the Underwriting Agreement.

STRUCTURE OF THE SHARE OFFER

The Sole Placing Underwriter is soliciting from prospective professional and institutional investors indications of interest in acquiring Placing Shares in the Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional and institutional investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as “book building”. In Hong Kong, retail investors should apply for Shares in the New Issue, as retail investors applying for Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any Placing Shares.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the listing of the Shares on the GEM of the Stock Exchange. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

The Sole Placing Underwriter or selling agents nominated by the Sole Placing Underwriter will, on behalf of the Company, conditionally place the Placing Shares with professional and institutional investors in Hong Kong, Japan, Singapore, Europe and certain other jurisdictions outside the United States.

If the Sole Placing Underwriter fails to procure subscriptions for any of the Placing Shares underwritten by it, pursuant to the Underwriting Agreement, all or any unsubscribed Placing Shares may be reallocated to the New Issue as additional New Issue Shares to satisfy valid applications therefor.

The Placing is conditional on the same conditions as set out in the section “Conditions” above. The total number of Placing Shares to be allotted and issued pursuant to the Placing may change as a result of the clawback arrangement referred to in the section “The New Issue” below and any reallocation of unsubscribed Shares originally included in the New Issue.

The New Issue

The Company is initially offering 7,500,000 New Issue Shares, representing approximately 10% of the total number of Shares being offered in the Share Offer, for subscription by way of a public offer in Hong Kong. The New Issue Shares are being offered at the Issue Price.

Multiple or suspected multiple applications and any application for more than the total number of Shares initially being offered under the New Issue are liable to be rejected. Each applicant under the New Issue will also be required to give an undertaking and confirmation in the application form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of Shares between the Placing and the New Issue is subject to adjustment. If the number of Shares validly applied for under the New Issue represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the New Issue, then Shares will be reallocated to the New Issue from the Placing, so that the total number of Shares available under the New Issue will be 22,500,000 Shares, representing approximately 30% of the Shares initially

STRUCTURE OF THE SHARE OFFER

available under the Share Offer. If the number of Shares validly applied for under the New Issue represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the New Issue, then the number of Shares to be reallocated to the New Issue from the Placing will be increased so that the total number of Shares available under the New Issue will be 30,000,000 Shares, representing approximately 40% of the Shares initially available under the Share Offer. If the number of Shares validly applied for under the New Issue represents 100 times or more of the number of Shares initially available for subscription under the New Issue, then the number of Shares to be reallocated to the New Issue from the Placing will be increased, so that the total number of Shares available under the New Issue will be 37,500,000 Shares, representing approximately 50% of the Shares initially available under the Share Offer. In each such case, the number of Shares allocated to the Placing will be correspondingly reduced.

In addition, if the New Issue is not fully subscribed, ICEA may pursuant to the Underwriting Agreement at its discretion reallocate all or any unsubscribed New Issue Shares which any New Issue Underwriters is required to subscribe or procure to be subscribed to the Placing as additional Placing Shares for subscription.

ICEA is the Sponsor and lead manager of the New Issue which is underwritten at the Issue Price by the New Issue Underwriters on and subject to the terms and conditions of the Underwriting Agreement.

Allocation of New Issue Shares to investors under the New Issue will be based solely on the level of valid applications received under the New Issue. The basis of allocation may vary, depending on the number of New Issue Shares validly applied for by applicants but, subject to that, will be made strictly on a pro-rata basis, although this could, where appropriate, consist of balloting. Balloting would mean that some applicants may receive a higher allocation than others who have applied for the same number of New Issue Shares and that applicants who are not successful in the ballot may not receive any New Issue Shares.

Listing on any other stock exchange

The Directors are not considering any listing of the Company on any other overseas stock exchange.

HOW TO APPLY FOR NEW ISSUE SHARES

Which application form to use

Use a **white** application form if you want the New Issue Shares issued in your own name.

Use a **yellow** application form if you want the New Issue Shares issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant.

Note: The Shares are not available to the Directors of the Company or existing beneficial owners of Shares, or associates of any of them (“associates” as defined in the GEM Listing Rules).

Where to collect the application forms

You can collect a **white** application form and a prospectus from:

1. any member of **The Stock Exchange of Hong Kong Limited**;
2. **ICEA Capital Limited**, 43rd Floor, NatWest Tower, Times Square, Causeway Bay, Hong Kong;
3. **Tai Fook Securities Company Limited**, 25th Floor, New World Tower, 16-18 Queen’s Road Central, Hong Kong;
4. **TIS Taiwan International Securities (HK) Limited**, Unit 1010, Tower Two, Lippo Centre, 89 Queensway, Hong Kong;
5. **Vickers Ballas Capital Limited**, 19th Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong;

and any one of the following branch or sub-branches of **Bank of China**:

Hong Kong Island:	Hong Kong branch	3rd Floor, 1 Garden Road, Central
	Central sub-branch	Li Po Chun Chambers, 189 Des Voeux Road Central
	Wanchai sub-branch	395 Hennessy Road, Wanchai
	North Point sub-branch	Ground Floor, Roca Centre, 464 King’s Road, North Point
Kowloon:	Tsim Sha Tsui sub-branch	Ground Floor, Houston Centre, 63 Mody Road, Tsim Sha Tsui
	Yaumatei sub-branch	471 Nathan Road, Yaumatei
	Kwun Tong sub-branch	55 Hoi Yuen Road, Kwun Tong
	Lai Chi Kok sub-branch	Unit 1, Ground Floor, Kowloon Plaza, 485 Castle Peak Road
New Territories:	Tsuen Wan sub-branch	167 Castle Peak Road, Tsuen Wan
	Shatin sub-branch	Ground Floor, Lucky Plaza, Wang Pok Street, Shatin

You can collect a **yellow** application form and a prospectus from:

- (1) The **Service Counter of Hongkong Clearing** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; and
- (2) The **Investor Service Centre of Hongkong Clearing** at Room 1901, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay, Hong Kong

HOW TO APPLY FOR NEW ISSUE SHARES

How to complete the application form

There are detailed instructions on each application form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected. If your application is made through a duly authorised attorney, the Company and ICEA as its agent may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney.

How many applications may you make?

The only situation where you may make more than one application for shares is if you are a nominee, you may lodge more than one application in your own name on behalf of different owners. In the box on the application form marked “For nominees” you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

All of your applications will be rejected as multiple applications if you, or you and joint applicants together:

- make more than one application on a white or yellow application form; or
- apply on one white or yellow application form for more than 100% of the Shares being offered for public subscription.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**. If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- *control the composition of the board of directors of the company; or*
- *control more than half the voting power of the company; or*
- *hold more than half the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

HOW TO APPLY FOR NEW ISSUE SHARES

How much are the New Issue Shares?

The issue price of the shares is HK\$1.20 each. You must also pay brokerage of 1% and a Stock Exchange transaction levy of 0.011%. This means that for every 2,000 Shares you will pay HK\$2,424.26. The application forms have tables showing the exact amount payable for multiples of shares. You must pay the issue price, brokerage and the transaction levy in full when you apply for the shares. If your application is successful, brokerage is paid to members of the Stock Exchange, and the transaction levy is paid to the Stock Exchange.

Members of the public - time for applying for Shares

Completed **white** or **yellow** application forms, with payment attached, must be lodged **by 12:00 noon on 19th November, 1999**, or, if the application lists are not open on that day, then by 12:00 noon on the day the lists are open. Your completed application form, with payment attached, should be deposited in the special collection boxes provided at any of the branch or sub-branches of Bank of China listed on page 81 of this prospectus at the following times:

Tuesday, 16th November, 1999 — 9:00 a.m. to 4:00 p.m.
Wednesday, 17th November, 1999 — 9:00 a.m. to 4:00 p.m.
Thursday, 18th November, 1999 — 9:00 a.m. to 4:00 p.m.
Friday, 19th November, 1999 — 9:00 a.m. to 12:00 noon

The application lists will be open **from 11:45 a.m. to 12:00 noon on Friday, 19th November, 1999.**

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

in force at any time between 9:00 a.m. and 12:00 noon on 19th November, 1999. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

Circumstances in which you will not be allotted new shares

Full details of the circumstances in which you will not be allotted Shares are set out in the notes attached to the application forms, and you should read them carefully. You should note in particular the following two situations in which Shares will not be allotted to you:

- **If your application is revoked:**

By completing an application form you agree that you cannot revoke your application before 16th December, 1999. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your application form. This collateral contract will be in consideration of the Company agreeing that it will not offer any Shares to any person before 16th December, 1999 except by this prospectus. You may only revoke your application before 16th December, 1999 if a person responsible for this prospectus under

HOW TO APPLY FOR NEW ISSUE SHARES

section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. If your application has been accepted, it cannot be revoked.

- **If the allotment of Shares is void:**

Your allotment of Shares will be void if the GEM Listing Committee does not grant permission to list the new shares either:

- within 3 weeks from the closing of the application lists; or
- within a longer period of up to 6 weeks if the GEM Listing Committee notifies the Company of that longer period within 3 weeks of the closing of the lists.

Collection/despatch of share certificates/refund cheques and deposit of share certificates into CCASS

WHITE application forms:

If you have applied for 200,000 New Issue Shares or above and have indicated on your application form that you will collect your share certificate(s) and refund cheque (if any) in person, you may collect it/them in person from:

HKSCC Registrars Limited
2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of share certificates. This is expected to be 24th November, 1999.

Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to HKSCC Registrars Limited.

If you do not collect your share certificate(s) and/or refund cheque (if any) in person within the time specified for collection, it/they will be sent to the address on your application form shortly after the date of despatch, by ordinary post and at your own risk.

If you have applied for 200,000 New Issue Shares or above and have not indicated on your application form that you will collect your share certificate(s) and refund cheque (if any) in person, or if you have applied for less than 200,000 New Issue Shares, then your share certificate(s) and/or refund cheque (if any) will be sent to the address on your application form on the date of despatch, by ordinary post and at your own risk.

YELLOW application forms:

Your share certificate(s) will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you at the close of business on 24th November, 1999, or on any other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited.

HOW TO APPLY FOR NEW ISSUE SHARES

If you are applying through a designated CCASS participant (other than an investor participant):

- for New Issue Shares credited to the stock account of your designated CCASS participant (other than an investor participant), you can check the number of New Issue Shares allotted to you with that CCASS participant.

If you are applying as an investor participant:

- the Company will publish the results of investor participants' applications together with the results of the New Issue in the newspapers and on the GEM Website on 23rd November, 1999. You should check against the announcement published by the Company and report any discrepancies to Hongkong Clearing before 12:00 noon on 24th November, 1999 or such other date as shall be determined by Hongkong Clearing or HKSCC Nominees Limited. On 25th November, 1999 (the next day following the credit of the New Issue Shares to your stock account) you can check your new account balance via the CCASS Phone System (under the procedures contained in Hongkong Clearing's "An Operating Guide for Investor Participants" in effect from time to time). Hongkong Clearing will also mail to you an Activity Statement showing the number of New Issue Shares credited to your stock account.

If you have applied for 200,000 New Issue Shares or above and have indicated on your application form that you will collect your refund cheque in person, the procedures set out in the subsection headed "**WHITE** application forms" above will apply.

If you have applied for less than 200,000 New Issue Shares, your refund cheque (if any) will be sent to the address on your application form on the date of despatch, which is expected to be 24th November, 1999, by ordinary post and at your own risk.

Commencement of dealings in the Shares

Dealings in the Shares is expected to commence on 25th November, 1999.

Shares will be traded in board lots of 2,000 each.

Shares will be eligible for admission into CCASS

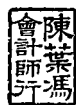
Subject to the granting of listing of, and permission to deal in, the Shares on GEM as well as the compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect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

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

You should seek the advice of your stockbroker or other professional adviser for details of arrangements of settlement of transactions of Shares through CCASS and on how these arrangements will affect your rights and interests.

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

**ARTHUR
ANDERSEN**
安達信公司



Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

陳葉馮會計師事務所有限公司

Arthur Andersen & Co
Certified Public Accountants

21/F., Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

37/F., Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

16th November, 1999

The Directors
China Agrotech Holdings Limited
ICEA Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to China Agrotech Holdings Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group”) for inclusion in the prospectus of the Company dated 16th November, 1999 (“the Prospectus”).

The Company was incorporated in the Cayman Islands on 9th September, 1999 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. The Company has not carried on any business since its incorporation, except that on 11th November, 1999 it acquired the entire issued share capital of Yut Yat Company Limited through a share exchange and consequently became the holding company of the Group. Yut Yat Company Limited acts as an intermediate holding company of the other companies comprising the Group.

As at the date of this report, no audited financial statements have been prepared by the Company and Yut Yat Company Limited as they were not subject to any statutory audit requirements in the jurisdictions of incorporation. No audited financial statements have been prepared by Fuzhou Topmart Plant Growth Co., Ltd. as it was incorporated subsequent to 30th June, 1999. We have, however, reviewed all relevant transactions of these companies for the years covered by this report, and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report. We have acted as auditors of Loyal Faith International Industrial Limited and Topmart Limited for each of the years covered by this report or since their respective dates of incorporation where this is a shorter period. Xiamen Genben Fine Chemical Industry Co., Ltd. was audited by Fujian Zhongqing Certified Public Accountants.

For the purpose of this report, we have carried out an audit of the consolidated financial statements of Loyal Faith International Industrial Limited and its subsidiary for each of the years ended 30th June, 1998 and 1999, and the financial statements of Topmart Limited for the period from 5th May, 1999 (date of incorporation) to 30th June, 1999, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants.

We have examined the audited consolidated financial statements of Loyal Faith International Industrial Limited and its subsidiary for each of the years ended 30th June, 1998 and 1999, the audited financial statements of Topmart Limited for the period from 5th May, 1999 (date of incorporation) to 30th June, 1999 and the management accounts of Yut Yat Company Limited for the period from 9th March, 1999 (date of incorporation) to 30th June, 1999, in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for each of the years ended 30th June, 1998 and 1999, and of the combined net assets of the Group as at 30th June, 1999 ("the Summaries") set out in this report have been prepared from the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group on the basis set out in Section 1 below, after making such adjustments as we considered appropriate for the purpose of preparing our report for inclusion in the Prospectus.

In our opinion, the Summaries, together with the notes thereon, give, for the purpose of this report, a true and fair view of the combined results of the Group for each of the years ended 30th June, 1998 and 1999 and of the combined net assets of the Group as at 30th June, 1999.

1. BASIS OF PRESENTATION

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

Name	Place and date of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Loyal Faith International Industrial Limited	Hong Kong 2nd March, 1995	HK\$1,000,000	100%	Investment holding
Topmart Limited	Hong Kong 5th May, 1999	HK\$2	100%	Investment holding
Xiamen Genben Fine Chemical Industry Co., Ltd.*	Mainland China 9th June, 1997	Rmb1,915,000 registered capital	62.67%	Manufacturing and selling of plant growth regulator products
Yut Yat Company Limited	British Virgin Islands 9th March, 1999	US\$60,000	100%	Investment holding
Fuzhou Topmart Plant Growth Co., Ltd.**	Mainland China 6th July, 1999	HK\$1,200,000 registered capital	100%	Manufacturing and selling of plant growth regulator products

- * Xiamen Genben Fine Chemical Industry Co., Ltd. is a sino-foreign equity joint venture established in Mainland China to be operated up to 2013.
- ** Fuzhou Topmart Plant Growth Co., Ltd. is a wholly-owned foreign enterprise established in Mainland China to be operated up to 2014.

The summary of the combined results includes the results of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout the years covered by this report or since their respective dates of incorporation where this is a shorter period. The summary of the combined net assets of the Group as at 30th June, 1999 has been prepared to present the assets and liabilities of the companies now comprising the Group as at that date as if the current group structure had been in existence as at 30th June, 1999.

Significant transactions and balances between companies now comprising the Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

a. Subsidiaries

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

b. Turnover and revenue recognition

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

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

c. Taxation

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

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

d. Development expenditures

Research expenditures are written off as incurred. Development expenditures incurred on specific projects are carried forward where recoverability can be foreseen with reasonable assurance. Development expenditures are amortised on a straight-line basis over a period of five years, which represents the time period where the related products are expected to be sold, starting from commencement of sales. The Directors consider this treatment results in proper matching of cost and revenue. Other development expenditures are written off as incurred.

e. Fixed assets and depreciation

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

Machinery and equipment	20%
-------------------------	-----

Gains or losses on disposals of fixed assets are recognised in the profit and loss account based on the net disposal proceeds less the then carrying amount of the assets.

f. Inventories

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

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

g. Operating leases

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

h. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into the

respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains or losses are dealt with in the profit and loss accounts of the individual companies.

On combination, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

i. Staff retirement benefits

The costs of staff retirement benefits are charged to the profit and loss account in the relevant period in which they are incurred.

3. RESULTS

The following is a summary of the combined results of the Group for each of the years ended 30th June, 1998 and 1999, prepared on the basis set out in Section 1 above:

	<i>Notes</i>	Years ended 30th June,	
		1998	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(a)	4,534	21,065
Cost of sales		<u>(1,975)</u>	<u>(5,961)</u>
Gross profit		2,559	15,104
Selling, general and administrative expenses		<u>(561)</u>	<u>(5,838)</u>
Profit before taxation	(b)	1,998	9,266
Taxation	(c)	<u>—</u>	<u>(286)</u>
Profit after taxation but before minority interests		1,998	8,980
Minority interests		<u>(746)</u>	<u>(3,458)</u>
Profit attributable to shareholders		<u>1,252</u>	<u>5,522</u>
Dividend	(d)	<u>—</u>	<u>4,000</u>
Earnings per share	(e)	<u>0.72 cents</u>	<u>3.16 cents</u>

a. **Turnover and revenue**

Analysis of turnover and revenue by product categories was as follows:

	Years ended 30th June,	
	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales		
- general plant growth regulator products	4,534	—
- plant growth regulator products for vegetables	—	10,405
- plant growth regulator products for fruits	—	10,660
	<u>4,534</u>	<u>21,065</u>
Total turnover	4,534	21,065
Interest income	—	2
	<u>—</u>	<u>2</u>
Total revenue	<u>4,534</u>	<u>21,067</u>

The Group's sales in Mainland China were carried out by Xiamen Genben Fine Chemical Industry Co., Ltd. ("Xiamen Genben"), a subsidiary established and operated in Xiamen, Fujian Province, Mainland China. No Mainland China value-added tax ("VAT") at a rate of 13% relating to these sales is provided or paid as the Directors of the Company are of the opinion that the sales of Xiamen Genben is exempted from VAT as the related products are classified as agricultural pesticides which are exempted from VAT under Mainland China tax regulations.

b. **Profit before taxation**

Profit before taxation was stated after charging and crediting the following:

	Years ended 30th June,	
	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
After charging -		
Cost of sales	1,975	5,961
Cost of staff retirement benefits	56	601
Operating lease rentals in respect of rented premises	143	346
Depreciation of fixed assets	400	513
Loss on disposals of fixed assets	—	141
Research and development expenses	—	1,108
Amortisation of development expenditures	505	506
Auditors' remuneration	130	130
	<u>130</u>	<u>130</u>
After crediting -		
Interest income from bank deposits	—	2
	<u>—</u>	<u>2</u>

c. **Taxation**

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

Xiamen Genben Fine Chemical Industry Co., Ltd. ("Xiamen Genben"), a subsidiary established and operated in a special economic region of Mainland China, is subject to Mainland China enterprise income tax at a rate of 15%. However, it is exempted from income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The first tax exemption period of Xiamen Genben expired on 31st December, 1998 and it is subject to Mainland China enterprise income tax at the rate of 7.5% for the six months ended 30th June, 1999. If the tax holiday did not exist, the Group's provision for Mainland China enterprise income tax would have been increased by approximately HK\$319,000 and HK\$1,170,000, respectively, for the years ended 30th June, 1998 and 1999.

There was no significant unprovided deferred taxation for each of the years ended 30th June, 1998 and 1999.

d. **Dividend**

No dividend has been paid or declared by the Company since its incorporation.

The following dividend was paid by Loyal Faith International Industrial Limited to its then shareholders during each of the years ended 30th June, 1998 and 1999:

	Years ended 30th June,	
	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loyal Faith International Industrial Limited	<u>—</u>	<u>4,000</u>

e. **Earnings per share**

The calculation of the basic earnings per share for the years ended 30th June, 1998 and 1999 is based on the profit attributable to shareholders during these years and on the 175,000,000 shares in issue and issuable, comprising 2,000,000 shares in issue as at the date of the prospectus and 173,000,000 shares to be issued pursuant to the Capitalisation Issue as described more fully in the section headed "Statutory and General Information" in Appendix V to the prospectus.

f. **Directors' and senior executives' emoluments**

i. Details of emoluments paid to directors of the Company were:

	Years ended 30th June,	
	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—
Other emoluments		
- Basic salaries and allowances	44	210
- Contributions to retirement plan	9	19
	<u>53</u>	<u>229</u>

The numbers of directors whose remuneration falls within the following bands are as follows:

	Years ended 30th June,	
	1998	1999
Nil — HK\$1,000,000	<u>3</u>	<u>3</u>

The three directors received emoluments (basic salaries and allowances) of approximately HK\$44,000, Nil and Nil, respectively, for the year ended 30th June, 1998 and approximately HK\$60,000, HK\$60,000 and HK\$90,000 for the year ended 30th June, 1999. No discretionary nor performance bonus was paid to the directors for the years ended 30th June, 1998 and 1999.

No director waived any emoluments. No incentive payment nor compensation for loss of office was paid or payable to any director for the years ended 30th June, 1998 and 1999.

Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the directors of the Company for the year ending 30th June, 2000 is estimated to be approximately HK\$1,650,000.

- ii. Details of emoluments paid to the five highest paid individuals (including directors and other employees) were:

	Years ended 30th June,	
	1998 HK\$'000	1999 HK\$'000
Basic salaries and allowances	100	390
Contributions to retirement plan	21	57
Total	<u>121</u>	<u>447</u>
Number of directors	1	3
Number of employees	<u>4</u>	<u>2</u>
	<u>5</u>	<u>5</u>

During the years ended 30th June, 1998 and 1999, no emoluments of the five highest paid individual (including directors and employees) were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

The remuneration of each of the highest paid individuals falls within the band of Nil to HK\$1,000,000 during each of the years ended 30th June, 1998 and 1999.

g. **Retirement benefits**

As stipulated by Mainland China regulations, Xiamen Genben Fine Chemical Industry Co., Ltd. maintains a defined contribution retirement plan for all of its employees. The company contributes to a state sponsored retirement plan approximately 21% of the basic salary of its employees, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. The Group's contributions for the years ended 30th June, 1998 and 1999 amounted to approximately HK\$56,000 and HK\$601,000, respectively, with no utilisation of forfeited contribution.

The other group companies did not have any pension scheme for their employees. As at 30th June, 1999, the Group had no significant obligation for long service payments to its employees in Hong Kong pursuant to the Hong Kong Employment Ordinance.

h. **Related party transactions**

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

Particulars of significant transactions between the companies now comprising the Group and a related company during the years covered by this report are summarised below:

	Years ended 30th June,	
	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales to China (Fujian) Chaoda Group*	—	6,139
License fee paid to China (Fujian) Chaoda Group*	—	187
	<u> </u>	<u> </u>

* China (Fujian) Chaoda Group was controlled by Mr. Kwok Ho, a director of Loyal Faith International Industrial Limited, the Company's subsidiary, during the years covered by this report. Mr. Kwok Ho has resigned as a director of the above-mentioned subsidiary effective from 8th September, 1999. Also, Ms. Chiu Na Lai, spouse of Mr. Kwok Ho, was a director of Yut Yat Company Limited and Topmart Limited, the Company's subsidiaries, during the year covered by this report. Ms. Chiu Na Lai has resigned as a director of the above-mentioned subsidiaries effective from 10th September, 1999.

The license fee was based on an agreement between the Group and China (Fujian) Chaoda Group. In the opinion of the Directors of the Company, the above related party transactions were carried out in the usual course of business of the Group and on normal commercial terms.

4. NET ASSETS

The following is a summary of the combined net assets of the Group as at 30th June, 1999, prepared on the basis set out in Section 1 above.

	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Development expenditures	(a)		1,519
Fixed assets	(b)		1,544
Current assets:			
Inventories	(c)	307	
Accounts receivable			
— third parties		548	
— a related party	(d)	300	
Other current assets		270	
Due from a related company	(d)	125	
Due from a director	(e)	2,558	
Cash and bank deposits		169	
		<u>4,277</u>	
Total current assets			<u>4,277</u>
Current liabilities:			
Accruals and other payables	(f)	1,306	
Taxation payable		286	
		<u>1,592</u>	
Total current liabilities			<u>1,592</u>
Net current assets			<u>2,685</u>
Total assets less current liabilities			5,748
Minority interests			<u>(2,130)</u>
Net assets	(g)		<u><u>3,618</u></u>

Notes:

a. Development expenditures

	<i>HK\$'000</i>
Beginning of year	2,022
Amortisation for the year	(506)
Translation adjustments	3
	<u>3</u>
End of year	<u><u>1,519</u></u>

The Directors of the Company were of the opinion that all of the projects with development expenditures deferred will generate adequate turnover and profit (after considering manufacturing and normal selling costs) in the foreseeable future to cover the related development expenditures. As at 30th June, 1999, all of the development expenditures deferred were related to projects which were in commercial production.

b. Fixed assets

	Cost <i>HK\$'000</i>	Accumulated depreciation <i>HK\$'000</i>	Net book value <i>HK\$'000</i>
Machinery and equipment	<u>2,364</u>	<u>(820)</u>	<u>1,544</u>

c. Inventories

	<i>HK\$'000</i>
Raw materials	261
Work-in-progress	24
Finished goods	<u>22</u>
	<u>307</u>

d. Due from a related company

	Outstanding balance at 1st July, 1998 <i>HK\$'000</i>	Outstanding balance at 30th June, 1999 <i>HK\$'000</i>	Maximum balance due from a related company during the year ended 30th June, 1999 <i>HK\$'000</i>
Due from Double More International Ltd. *	<u>—</u>	<u>125</u>	<u>125</u>

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

The outstanding balances with Double More International Ltd. was unsecured, non-interest bearing and without pre-determined repayment terms. As at the date of this report, the outstanding balance at 30th June, 1999 has been fully repaid. Had interest been charged on the outstanding balance with related company during the years covered by this report based on the average Hong Kong prime lending rate of approximately 9.37% per annum, the Group would have received interest, net of tax, of approximately nil and HK\$1,000, respectively, for the years ended 30th June, 1998 and 1999.

In addition, as at 30th June, 1999, approximately HK\$300,000 of the Group's accounts receivable is due from China (Fujian) Chaoda Group, being the balance arising from sales made to China (Fujian) Chaoda Group, a related company of the Group as described in Section 3.h. As at the date of this report, this outstanding balance has been settled.

e. Due from (to) a director

	Outstanding balance at 1st July, 1998 <i>HK\$'000</i>	Outstanding balance at 30th June, 1999 <i>HK\$'000</i>	Maximum balance due from a director during the year ended 30th June, 1999 <i>HK\$'000</i>
Mr. Wu Shaoning	<u>(1,680)</u>	<u>2,558</u>	<u>2,558</u>

The outstanding balance with Mr. Wu Shaoning, a director of the Company was unsecured and non-interest bearing. Approximately HK\$1,008,000 was settled by cash on 8th November, 1999 and the remaining balance of approximately HK\$1,550,000 was settled by cash on 9th November, 1999. Had interest been charged on the outstanding balance with the director during the years covered by this report based on the average Hong Kong prime lending rates of approximately 9.37% per annum, the Group would have paid (received) interest, net of tax, of approximately HK\$176,000 and HK\$(35,000), respectively, for the years ended 30th June, 1998 and 1999.

f. Accruals and other payables

	<i>HK\$'000</i>
Provision for staff welfare	155
Provision for staff retirement benefits	657
Accruals for selling, general and administrative expenses	<u>494</u>
	<u>1,306</u>

Provision for staff welfare is made according to 14% of employee salary in accordance with the government regulations in Mainland China.

g. Net assets of the Company

The Company was incorporated on 9th September, 1999. On the basis as set out in Section 1 above, the net assets of the Company as at 30th June, 1999 amounted to approximately HK\$3,618,000, representing investment in subsidiaries.

h. Reserves

Movements of reserves of the companies now comprising the Group during each of the years ended 30th June, 1998 and 1999 were:

	Years ended 30th June,	
	1998	1999
	HK\$'000	HK\$'000
Statutory surplus reserve * -		
Beginning of year	—	—
Transfer from retained profit	—	293
Translation adjustments	—	1
End of year	—	294
Cumulative translation adjustments -		
Beginning of year	—	3
Translation adjustments	3	12
End of year	3	15
(Accumulated deficit) Retained profit -		
Beginning of the year	(560)	692
Profit for the year	1,252	5,522
Transfer to statutory surplus reserve	—	(293)
Dividend	—	(4,000)
End of year	692	1,921

* Xiamen Genben Fine Chemical Industry Co., Ltd. is required to appropriate its statutory after-tax profit (after offsetting any prior years' losses) to statutory surplus reserve, with the amount of the appropriation be determined by its Board of Directors, until the balance of the statutory surplus reserve reaches 50% of its share capital and thereafter any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or for the issuance of bonus shares, but such statutory surplus reserve shall be maintained at a minimum of 25% of share capital after such issuance.

i. Distributable reserves

The Company has not carried on any business since its incorporation, except for the acquisition on 11th November, 1999 of the subsidiaries set out in Section 1 above. Accordingly, the Company had no reserves available for distribution to shareholders as at 30th June, 1999.

5. COMMITMENTS

The Group had the following significant commitments which are not reflected in the summary of combined net assets of the Group set out in Section 4 above:

a. Operating lease commitment

As at 30th June, 1999, the Group had commitment in respect of rented premises under a non-cancellable operating lease agreement extending to June 2004, amounting to approximately HK\$1,462,000. The amount of commitment payable within the next twelve months were analysed as follows:

	<i>HK\$'000</i>
Lease expiring within a period	
— more than one year but not exceeding five years	<u>276</u>

b. Capital commitments

As at 30th June, 1999, the Group had authorised but not contracted for capital commitments of approximately HK\$2,250,000 for acquisition of fixed assets.

6. SUBSEQUENT EVENTS

The following transactions took place subsequent to 30th June, 1999 and up to the date of this report:

- a. the Group entered into a letter of intent to acquire land use right in Mainland China for approximately HK\$7,875,000.
- b. the Group completed a reorganisation in preparation for a listing of shares of the Company on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the details of which are set out in the subsection headed "Corporate reorganisation" of Appendix V to the prospectus; and
- c. at the special general meeting of the Company held on 11th November, 1999, resolutions were passed to effect the transactions set out in the subsection headed "Resolutions of all shareholders of the Company passed on 21st September, 1999 and on 11th November, 1999" of Appendix V to the prospectus.

7. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30th June, 1999. In addition, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30th June, 1999.

Yours faithfully,
ARTHUR ANDERSEN & CO.

Yours faithfully,
CHARLES CHAN, IP & FUNG CPA LTD.
Chan Wai Dune, Charles
Practising Certificate Number P00712

The forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2000 is set out in the section headed “Financial Information — Profit Forecast, Dividend Policy, Working Capital and Distributable Reserves” above.

1. Bases and assumptions

The forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2000 is based on the unaudited results of the Group for the three months ended 30th September, 1999 and a forecast of the results of the Group for the nine months ending 30th June, 2000. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 30th June, 2000. The forecast has been prepared on a consistent basis in all material respects with the accounting policies presently adopted by the Group as summarised in Section 2 of the accountants’ report as set out in Appendix I.

The Directors have adopted the assumptions described in the section headed “Financial Information — Profit Forecast” and the following assumptions in the preparation of the profit forecast:—

- (a) there will be no material change in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong and Mainland China or any of the countries in which the Group carries on business;
- (b) there will be no material impact on competitiveness and profitability of the Group’s products resulting from change in tariff policies on imported PGRs or China’s entry to the World Trade Organisation;
- (c) there will be no material changes in the prevailing interest rates or foreign currency exchange rates from those currently prevailing;
- (d) there will be no material changes in the bases or rates of taxation in Hong Kong and Mainland China; and
- (e) there will be no significant natural disasters nor adverse weather conditions such as flood, storm, drought nor earthquake during the forecast period that would affect the agricultural industry and thus the demand for the Group’s products will not be affected by adverse weather condition during the forecast period.

2. Letters

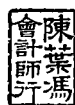
Set out below are texts of letters received by the Directors from Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd. and from ICEA in connection with the forecast combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 2000.

(i) Letter from Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd.

**ARTHUR
ANDERSEN**
安達信公司

Arthur Andersen & Co
Certified Public Accountants

21/F., Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong



Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
陳葉馮會計師事務所有限公司

37/F., Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

16th November, 1999

The Directors
China Agrotech Holdings Limited
ICEA Capital Limited

Dear Sirs,

We have reviewed the accounting policies applied and the calculations made in arriving at the forecast of the combined profit after taxation and minority interests but before extraordinary items of China Agrotech Holdings Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as “the Group”) for the year ending 30th June, 2000 (“the forecast”), for which the directors of the Company are solely responsible, as set out in the prospectus of the Company dated 16th November, 1999. The forecast has been prepared by the directors of the Company based on the unaudited results as shown in the management accounts of the Group for the three months ended 30th September, 1999 and a forecast of the results of the Group for the remaining nine months ending 30th June, 2000.

In our opinion, the forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the bases and assumptions made by the directors of the Company as set out in Section 1 of Appendix II to the above-mentioned prospectus, and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in our accountants’ report dated 16th November, 1999, the text of which is set out in Appendix I to the above-mentioned prospectus.

Yours faithfully,
ARTHUR ANDERSEN & CO.

Yours faithfully,
CHARLES CHAN, IP & FUNG CPA LTD.
Chan Wai Dune, Charles
Practising Certificate Number P00712

(ii) Letter from ICEA



ICEA Capital Limited
43rd Floor, NatWest Tower, Times Square,
Causeway Bay, Hong Kong

16th November, 1999

The Directors
China Agrotech Holdings Limited

Dear Sirs,

We refer to the forecast of the profit after taxation and minority interests but before extraordinary items of China Agrotech Holdings Limited (the “Company”) for the year ending 30th June, 2000 (the “forecast”) as set out in the prospectus of the Company dated 16th November, 1999.

We have discussed with you the bases and assumptions upon which the forecast has been made. We have also considered the letter dated 16th November, 1999 addressed to yourselves and ourselves from Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd. regarding the accounting policies and calculations upon which the forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations reviewed by Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd., we have formed the opinion that the forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully
For and on behalf of
ICEA Capital Limited
Meocre Li
Chief Executive

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 30th September, 1999 of the property interests of the Group in Hong Kong and the PRC.



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

The Chinese characters '西門' (Sai Man), which is the name of the firm Sallmanns.

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165-171 Wanchai Road
Hong Kong
Tel: (852) 2169 6000
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16th November, 1999

The Directors
China Agrotech Holdings Limited,
Room 2906, 29/F,
China Resources Building,
No.26 Harbour Road,
Wanchai,
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which China Agrotech Holdings Limited (the “Company”), and its subsidiaries (together the “Group”) have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the relevant properties as at 30th September, 1999.

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

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

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

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

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

In valuing the property interests in the PRC, we have complied with all the requirements contained in the Practice Note 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by the Stock Exchange of Hong Kong Limited.

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

We have not searched the title of the properties and have not scrutinised the original title documents. We have been given copies of the tenancy agreements under which the properties were rented by the Group.

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

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

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

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

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
BSc FRICS FHKIS
Director

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

SUMMARY OF VALUE

GROUP I — PROPERTY INTEREST RENTED BY THE GROUP IN HONG KONG

Property	Open market value attributable to the Group as at 30th September, 1999 HK\$
1. Room 2906, 29/F, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong	No commercial value

GROUP II — PROPERTY INTERESTS RENTED BY THE GROUP IN THE PRC

2. 2/F, 36 Xi Yuan Street, Xi Yuan Village, Jin An District, Fu Zhou City, Fujian Province, The PRC	No commercial value
3. Unit 7C, Block 10, Zone 1, Rong Qiao Garden, Wu Si Bei Road, Fu Zhou City, Fujian Province, The PRC	No commercial value
4. Various buildings located at Lian Yue Road North, Xiamen City, Fujian Province, The PRC	No commercial value
5. South-East corner of Floor 24, Zhong Shan Building, 154, Hudong Road, Fu Zhou City, Fujian Province, The PRC	No commercial value

VALUATION CERTIFICATE

GROUP I — PROPERTY INTEREST RENTED BY THE GROUP IN HONG KONG

Property	Description and tenure	Particulars of occupancy	Open market value attributable to the Group as at 30th September, 1999 <i>HK\$</i>
1. Room 2906, 29/F, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong	<p>The property comprises an office accommodation on the 29th Floor of a 50-storey commercial building completed in about 1983.</p> <p>The property has an area of 2,201 sq.ft. or thereabouts.</p> <p>The property is rented by the Topmart Limited, a subsidiary of the Group, for a term of 2 years commencing from 6th September, 1999 (including rent-free periods from 6th September, 1999 to 5th November, 1999 and from 6th September, 2000 to 5th November, 2000) at a monthly rental of HK\$41,819 exclusive of rates, management fee and air-conditioning charges.</p>	The property is currently occupied by the Company as an office.	No commercial value

GROUP II — PROPERTY INTERESTS RENTED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Open market value attributable to the Group as at 30th September, 1999 HK\$
2. 2/F, 36 Xi Yuan Street, Xi Yuan Village, Jin An District, Fuzhou City, Fujian Province, The PRC	<p>The property comprises a research institute on the 2/F of a 3-storey building completed in about 1983.</p> <p>The property has a total gross floor area of 396 sq.m. or thereabouts.</p> <p>The property is rented by Fuzhou Topmart Plant Growth Co. Ltd., a subsidiary of the Group, for a term of 5 years from 1st August, 1999 to 30th July, 2004 at an monthly rental of RMB 8,000.</p>	The property is currently occupied by Fuzhou Topmart Plant Growth Co. Ltd. as a research institute.	No commercial value
3. Unit 7C, Block 10, Zone 1, Rong Qiao Garden, Wu Si Bei Road, Fuzhou City, Fujian Province, The PRC	<p>The property comprises an office accommodation on the 7/F of a 7-storey building completed in about 1995.</p> <p>The property has a total gross floor area of 129 sq.m. or thereabouts.</p> <p>The property is rented by Fuzhou Topmart Plant Growth Co. Ltd., a subsidiary of the Group, for a term of 3 years from 1st September, 1999 to 31st August, 2002 at an monthly rental of RMB 2,500.</p>	The property is currently occupied by Fuzhou Topmart Plant Growth Co. Ltd. as an office.	No commercial value
4. Various buildings located at Lian Yue Road North, Xiamen City, Fujian Province, The PRC	<p>The property comprises a factory, a laboratory and a dormitory building with a total gross floor area of 1,485 sq.m. or thereabouts.</p> <p>The property is rented by Xiamen Genben Fine Chemical Industry Co. Ltd., a subsidiary of the Group, for a term of 6 years from 25th June, 1998 to 24th June, 2004 at a monthly rental of RMB 16.5 per sq.m. which is then subject to an increment of 5% every other year.</p>	The property is currently occupied by Xiamen Genben Fine Chemical Industry Co. Ltd. for manufacturing purposes.	No commercial value

Property	Description and tenure	Particulars of occupancy	Open market value attributable to the Group as at 30th September, 1999 <i>HK\$</i>
5. South-East corner of Floor 24, Zhong Shan Building, 154, Hudong Road, Fuzhou City, Fujian Province, The PRC	<p>The property comprises an office accommodation with a total gross floor area of 115 sq.m. or thereabouts.</p> <p>The property is rented by Fuzhou Topmart Plant Growth Co. Ltd., a subsidiary of the Group for a term of 1 years from 1st August, 1999 to 1st August, 2000 at a monthly rental of RMB 50 per sq.m.</p>	The property is currently occupied by Fuzhou Topmart Plant Growth Co. Ltd. for office purposes.	No commercial value

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

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

1. MEMORANDUM OF ASSOCIATION

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

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 21st September 1999, conditional upon the approval being obtained for the listing of the Shares on GEM. The following is a summary of certain provisions of the Articles:

(a) **Directors**

(i) *Power to allot and issue shares and warrants*

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

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

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

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

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

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

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

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

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

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

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

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

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

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

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
 - (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
 - (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
 - (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (vi) *Remuneration*

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

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

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

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

(vii) *Retirement, appointment and removal*

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

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

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

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

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

(viii) *Borrowing powers*

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

(ix) *Proceedings of the Board*

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

(x) *Register of Directors and Officers*

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

(b) Alterations to constitutional documents

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

(c) Alteration of capital

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

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

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

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

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

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

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

(e) Special resolution-majority required

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

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

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

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

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised

representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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

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

(g) Requirements for annual general meetings

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

(h) Accounts and audit

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

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

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

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

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

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

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

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

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

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

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

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any

case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

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

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

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

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

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

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

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

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

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

(m) Dividends and other methods of distribution

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

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

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

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

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

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

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

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

(n) Proxies

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

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the

person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

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

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

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

(p) Inspection of register of members

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

(q) Quorum for meetings and separate class meetings

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

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

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

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

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

(s) Procedures on liquidation

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

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

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

(t) **Untraceable members**

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

(u) **Subscription rights reserve**

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

3. CAYMAN ISLANDS COMPANY LAW

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

(a) **Operations**

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

(b) Share capital

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

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

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

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

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

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

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

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

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

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

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

(e) Dividends and distributions

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

(f) Protection of minorities

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

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

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

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

(g) Management

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

(h) Accounting and auditing requirements

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

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

(i) Exchange control

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

(j) Taxation

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

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

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

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

(k) Stamp duty on transfers

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

(l) Loans to directors

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

(m) Inspection of corporate records

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

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

(n) Winding up

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

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

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

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

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

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

(o) **Reconstructions**

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

(p) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month

of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) **Indemnification**

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

4. GENERAL

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

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

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 9th September, 1999 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares. On 10th September 1999, one Share was allotted and issued to the subscriber to the Company's memorandum of association, Codan Trust Company (Cayman) Limited, and subsequently transferred to Mr. Wu. A further 999,999 Shares were allotted and issued nil paid, as to 799,999 Shares to Mr. Wu, 160,000 Shares to Mr. Tung Fai and 40,000 Shares to Madam Chiu Na Lai. All the nil paid Shares were subsequently paid up in the manner described in paragraph 4 below.

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

2. Changes in share capital

Pursuant to resolutions in writing of the shareholders of the Company passed on 11th November, 1999, the share capital of the Company was increased to HK\$200,000 by the creation of 1,000,000 Shares, which were on that date allotted and issued, credited as fully paid, as described in paragraph 4 below.

Immediately following the completion of the Share Offer and the Capitalisation Issue, the authorised share capital of the Company will be HK\$50,000,000 divided into 500,000,000 Shares of which 250,000,000 Shares will be allotted and issued fully paid or credited as fully paid, and 250,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme or the exercise of the general mandate referred to in paragraph 3 of this Appendix, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in paragraphs 1 and 4 of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

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

- (a) On 21st September, 1999, pursuant to resolutions in writing passed by all shareholders of the Company and conditional upon the approval being obtained for the listing of the Shares on GEM, the Company adopted the Articles of Association in substitution for and to the exclusion of its then existing articles of association;
- (b) On 11th November, 1999, pursuant to further resolutions in writing passed by all shareholders of the Company and conditional on the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares in issue and to be issued

as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:

- (i) the authorised share capital was increased from HK\$200,000 to HK\$50,000,000 by the creation of a further 498,000,000 Shares;
- (ii) the Share Offer was approved and the Directors were authorised to allot and issue the Offer Shares pursuant thereto;
- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 13 of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;
- (iv) conditional on the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise HK\$17,300,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 173,000,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 11th November, 1999 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing holdings;
- (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the articles of association of the Company, or pursuant to the exercise of any options which may be granted under the Share Option Scheme or under the Share Offer or the Capitalisation Issue, Shares with an aggregate nominal amount not exceeding the sum of 20% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first;
- (vi) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares on GEM or any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first; and

- (vii) the general mandate to allot, issue and deal with Shares was extended to include the nominal amount of the share capital of the Company which is repurchased pursuant to the resolution referred to in paragraph (vi) above.

4. Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on GEM. The reorganisation involved the transfer by Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai to the Company of an aggregate of 60,000 shares of US\$1.00 each in Yut Yat (being its entire issued share capital), the intermediate holding company of the Group, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, 1,000,000 new Shares, as to 800,000 Shares to Mr. Wu, 160,000 Shares to Mr. Tung Fai and 40,000 Shares to Madam Chiu Na Lai; and (ii) credited as fully paid an aggregate of 999,999 nil paid Shares in issue and held as to 799,999 Shares by Mr. Wu, 160,000 Shares by Mr. Tung Fai and 40,000 Shares by Madam Chiu Na Lai on 11th November, 1999.

In addition to the transfer of shares in Yut Yat referred to above, on 9th September, 1999, Yut Yat acquired all the issued shares in Loyal Faith from the following persons in exchange for which Yut Yat allotted and issued, credited as fully paid, the following number of shares of US\$1.00 each in Yut Yat to such persons:—

Transferor	Transferee	Number of shares in Loyal Faith	Number of shares in Yut Yat allotted to the Transferor
Mr. Wu	Yut Yat	800,000	8,000
Mr. Tung Fai	Yut Yat	100,000	1,000
Madam Chiu Na Lai	Yut Yat	100,000	1,000

On 24th May 1999, 2 shares of HK\$1 each in Topmart were transferred from the original subscribers to Yut Yat and Mr. Wu (on trust for Yut Yat) respectively at a consideration of HK\$2.00.

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

The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to this prospectus. The following alterations in the share capital of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

- (a) on 9th March 1999, Yut Yat was incorporated with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each;
- (b) on 24th May 1999, 50,000 shares of US\$1.00 each in Yut Yat were allotted and issued, as to 40,000 shares to Mr. Wu, 5,000 shares to Mr. Tung Fai and 5,000 shares to Madam Chiu Na Lai for cash at par;

- (c) on 13th September, 1999, the authorised share capital of Yut Yat was increased to US\$60,000 divided into 60,000 shares of US\$1.00 each, and an additional 8,000 shares were allotted and issued to Mr. Wu, 1,000 shares to Mr. Tung Fai and 1,000 shares to Madam Chiu Na Lai, all credited as fully paid, in consideration of Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai transferring, in aggregate, 1,000,000 shares of HK\$1.00 each in Loyal Faith (being the entire issued capital of Loyal Faith) to Yut Yat;
- (d) on 5th May, 1999, Topmart was incorporated with an authorised share capital of HK\$2.00 divided into 2 shares of HK\$1 each, one of which was allotted and issued to each of the two subscribers to its memorandum and articles of association for cash at par; and
- (e) on 6th July, 1999, Fuzhou Topmart was incorporated as a wholly foreign-owned enterprise with a registered capital of HK\$1,200,000, which was fully paid in cash on 4th November, 1999.

Save as disclosed herein and in paragraphs 1 and 2 of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph 6 includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Stock Exchange Rules*

The GEM Listing Rules permit companies with a listing on GEM to repurchase their shares on GEM subject to certain restrictions, the most important of which are summarised below.

(i) Shareholders' approval

All proposed repurchases of shares (which must be fully paid up) by a company with a listing on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction. Such general mandate may only continue in force until the conclusion of the first annual general meeting of the company following the passing of the resolution at which time it shall lapse unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions, or revoked or waived by ordinary resolution of the shareholders in general meeting whichever occurs first.

Note: Pursuant to a resolution in writing passed by all shareholders of the Company on 11th November, 1999, a general unconditional mandate (the "Repurchase Mandate") was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of the Company in issue and to be issued as mentioned herein as at the date of the resolution granting the general mandate, such mandate to expire at the conclusion of the next annual general meeting of the Company following the passing of the resolution at which it shall lapse unless, by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions, or when revoked or varied by ordinary resolution of shareholders in general meeting of the Company, whichever shall first occur.

(ii) Source of funds

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

(iii) Trading restrictions

The total number of shares which a company may repurchase on GEM is shares representing up to a maximum of 10% of the aggregate number of shares in issue as at the date of the resolution granting the mandate to repurchase such shares. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue shares which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. The GEM Listing Rules also prohibit a company from repurchasing its shares on GEM if the repurchase would result in the number of listed shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect repurchase of shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased securities

All repurchased shares (whether effected on GEM or otherwise) will be automatically delisted and the certificates for those shares must be cancelled and destroyed. Under the Cayman Islands law, a company's repurchased shares will be treated as cancelled.

(v) Suspension of repurchase

A company may not make any repurchase of shares on GEM after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of its half-yearly report or quarterly report, a company may not repurchase its shares on GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of shares on GEM if a company has breached any of the GEM Listing Rules.

(vi) Reporting requirements

Repurchases of shares on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to disclose details regarding repurchases of shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per share and the aggregate prices paid. The directors' report shall also contain reference to repurchases made during the year and the reasons for making such repurchases.

(vii) Connected parties

A company is prohibited from knowingly repurchasing shares on GEM from a "connected person", that is, a director, chief executive or substantial shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his shares to the company on GEM.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from the shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) *Funding of repurchases*

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

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

The exercise in full of the Repurchase Mandate, on the basis of 250,000,000 Shares in issue immediately after the listing of the Shares, would result in up to 25,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) *General*

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

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

If, as a result of a share repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

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

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

7. Registration under Part XI of the Companies Ordinance

The Company has established a place of business in Hong Kong at Room 2906, 29/F, China Resources Building, 26 Harbour Road, Hong Kong. The Company has been registered as an overseas company under Part XI of the Companies Ordinance. Ms. So Siu Ping of Flat E, 4th Floor, Block 1, Elegant Garden, 409 Queen's Road West, Hong Kong has been appointed as agent of the Company for the acceptance of service of process and notices in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

8. Summary of material contracts

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


- (a) a sale and purchase agreement dated 11th November, 1999 and entered into between Mr. Wu, Mr. Tung Fai and Madam Chiu Na Lai as vendors, and the Company as purchaser for the acquisition of the entire issued capital of Yut Yat in consideration of the allotment and issue, credited as fully paid, of an aggregate of 1,000,000 Shares, as to 800,000 Shares to Mr. Wu, 160,000 Shares to Mr. Tung Fai and 40,000 Shares to Madam Chiu Na Lai and the crediting as fully paid of an aggregate of 999,999 Shares previously allotted and issued nil paid and held as to 799,999 Shares by Mr. Wu, 160,000 Shares by Mr. Tung Fai and 40,000 Shares by Madam Chiu Na Lai;

- (b) a general deed of indemnity dated 15th November, 1999 executed by Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya in favour of the Group against any loss which it may suffer as a result of any negligence, fraud, misrepresentation or other unlawful act or omission committed by any of them on or before the date of such deed;
- (c) a deed of tax indemnity dated 15th November, 1999 (“Deed of Tax Indemnity”) executed by Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya in favour of the Group containing the indemnities in respect of estate duty and taxation referred to in paragraph 14 of this Appendix;
- (d) the Underwriting Agreement;
- (e) the trade mark licensing agreements and their respective supplemental agreements referred to in paragraph 9(a) of this Appendix; and
- (f) the patent assignment referred to in paragraph 9(b) of this Appendix.

9. Intellectual property rights of the Group

(a) Trade mark

Pursuant to two trade mark licensing agreements dated 15th June 1998 and 6th July 1999 respectively and supplemented by two supplemental agreements both dated 9th September, 1999, Supreme Bonus granted an exclusive license to Xiamen Genben and Fuzhou Topmart to use the following registered trade mark in the PRC to Xiamen Genben and Fuzhou Topmart respectively, in both cases, for a fixed term of 25 years commencing from 15th June, 1998 (in the case of Xiamen Genben) and 6th July, 1999 (in the case of Fuzhou Topmart).

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

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

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

(b) Patent

Pursuant to a patent assignment dated 13th September, 1999, Mr. Wu assigned to the Company all his rights and interests in the technical knowhow relating to the production of DCPTA and the patent application in respect thereof which was made to the PRC Patents Registry in Mr. Wu’s name on 16th July, 1999, at a consideration of RMB60,000.

10. Information on the Group's PRC enterprises

(a) *Xiamen Genben*

Xiamen Genben, previously known as Xiamen Defeng Fine Chemical Industry Co. Ltd., is a sino-foreign equity joint venture established in the PRC and engaged in the production and sale of PGRs. The parties to the joint venture are Xiamen Yien Yang and Loyal Faith. The following is a summary of relevant joint venture terms of Xiamen Genben:

Date of incorporation:	9th June, 1997, under the former name of Xiamen Defeng Fine Chemical Industry Co. Ltd.
Operational term:	15 years from 4th January, 1998 (being the date of the business licence)
Total investment:	RMB2,680,000
Registered capital:	RMB1,915,000
Capital contribution:	Xiamen Yien Yang — RMB714,900 Loyal Faith — RMB1,200,100
Equity interests:	Xiamen Yien Yang — 37.33% Loyal Faith — 62.67%
Board of directors:	three directors, one appointed by Xiamen Yien Yang and two appointed by Loyal Faith
Sharing of profits and losses:	Xiamen Yien Yang — 37.33% Loyal Faith — 62.67%
Arrangement on dissolution:	Xiamen Yien Yang and Loyal Faith shall share any excess assets over its liabilities in proportion to their respective capital contributions.

(b) *Fuzhou Topmart*

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

Date of incorporation:	6th July, 1999
Operational term:	15 years from 6th July, 1999
Total investment:	HK\$1,700,000
Registered capital:	HK\$1,200,000
Legal representative:	Mr. Wu

FURTHER INFORMATION ABOUT THE DIRECTORS, SENIOR MANAGEMENT AND STAFF

11. Disclosure of interests

(a) *Disclosure of interests of the Directors*

- (i) Save as disclosed in this prospectus, none of the Directors or their associates (as defined in the GEM Listing Rules) was engaged in any dealings with the Group during the two years preceding the date of this prospectus.
- (ii) Each of Mr. Wu and Mr. Tung Fai is interested in the corporate reorganisation referred to under paragraph 4 of this Appendix.

(b) *Particulars of Directors' service contracts*

Each of Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya, being all the executive Directors, has entered into a service contract with the Company, in the case of Mr. Wu, for a term of 10 years, and in the case of Mr. Tung Fai and Mr. Yang Zhuoya, for a term of three years, all commencing from 15th November, 1999, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to a basic salary (subject to an annual increment at a rate to be determined by a majority of the Directors). In addition, each of the executive Directors is also entitled to a management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors who are entitled to such bonuses for any financial year of the Company may not exceed 6% of the audited consolidated or combined net profit of the Company (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of the Company. The Directors' entitlement to the management bonus in respect of the year ending 30th June, 2000 is conditional upon the combined net profit of the Company (after taxation and minority interests and the payment of such bonuses but before extraordinary items) for that year being not less than HK\$28.2 million. Under the Articles of Association and the service contracts between the Directors and the Company, an executive Director may not vote on any resolution of the Directors regarding the amount of the annual increment and management bonus payable to him/her. The basic annual salaries of the executive Directors under the service contracts are as follows:

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

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

(c) *Directors' remuneration*

- (i) During the year ended 30th June, 1999, the aggregate emoluments paid by the Group to the Directors were approximately HK\$229,000.
- (ii) Under the arrangements currently in force, the aggregate amount of fees and other emoluments payable to the Directors for the year ending 30th June, 2000 is estimated to be approximately HK\$1,650,000.

(d) *Interests of the Directors in the share capital of the Company after the Share Offer and the Capitalisation Issue*

Immediately following the Share Offer and the Capitalisation Issue, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the Shares are listed on the GEM or which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, once the Shares are listed, or which will be required pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

Director	Type of Interest	Number of Shares
Mr. Wu	Personal interest	140,000,000
Mr. Tung Fai	Personal interest	28,000,000

(e) *Related parties transactions*

- (i) During the two years preceding the date of this prospectus, the Group had engaged in dealings with the Chaoda Group, a group of companies controlled by Mr. Kwok Ho, a former director of Loyal Faith and the spouse of Madam Chiu Na Lai, a former substantial shareholder of Loyal Faith and Yut Yat and a former director of Loyal Faith, Yut Yat and Topmart as described in the paragraph headed "Relationship with the Chaoda Group" under the section headed "Business" of this prospectus.
- (ii) Pursuant to a patent assignment dated 13th September, 1999, Mr. Wu assigned to the Company his rights and interests in the Group's production knowhow and the patent application in respect thereof at a consideration of RMB60,000. Particulars of the assignment are set out in paragraph 9 of this appendix.

(f) *Disclaimers*

Save as disclosed in this prospectus:

- (i) and taking no account of any Shares which may be taken up or acquired under the Share Offer or any option which may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following the Share Offer and

the Capitalisation Issue will hold either directly or indirectly, or be beneficially interested in, Shares representing 10% or more of the nominal value at any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

- (ii) none of the Directors has for the purpose of section 28 of the SDI Ordinance or the GEM Listing Rules, nor is any of them taken to or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or which will be required to be notified to the Company and the Stock Exchange pursuant to rules 5.40 to 5.59 of the GEM Listing Rules by the Directors once the Shares are listed on GEM;
- (iii) none of the Directors or the experts named in paragraph 19 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (iv) no Director is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (v) none of the experts named in paragraph 19 of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

(g) *Miscellaneous*

Mr Lam Ming Yung, who is a non-executive Director, is a PRC lawyer practising with the firm of Fong & Ng, legal advisers to the Company on Hong Kong law, which firm will be receiving professional fee for its service rendered to the Company.

12. Substantial shareholder

So far as the Directors are aware, immediately following the Share Offer and the Capitalisation Issue and taking no account of Shares which may be taken up under the Share Offer, the following shareholder will be interested in 10% or more of the Shares then in issue.

Name	No of Shares	Percentage of issued Shares
Mr. Wu	140,000,000	56.0%
Mr. Tung Fai	28,000,000	11.2%

13. Share Option Scheme

(a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by the resolutions passed by all shareholders of the Company on 11th November, 1999:

(i) Who may join

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

(ii) Price for Shares

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

(iii) Maximum number of Shares

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

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

(iv) Time of exercise of option

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

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

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

(v) Rights are personal to the grantee

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

(vi) Rights on ceasing employment

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

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

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

(viii) Rights on dismissal

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

(ix) Effect of alterations to capital

In the event of any alteration in the structure of the Company whether by way of reduction, sub-division or consolidation of the share capital of the Company, rights issue or capitalisation of profits or reserves other than an issue of Shares as consideration in respect of a transaction to which the Company is a party and alterations made on a capitalization issue, any alteration to the number or nominal amount of Shares comprised in each option, the option price and/or the method of exercise of the option shall be

conditional on the auditors of the Company confirming in writing to the Board that the adjustments proposed is on the basis that the proportion of the equity capital of the Company that grantee is entitled to after adjustment shall remain the same as that before the adjustment and that no Shares will be issued at less than the nominal value.

(x) Rights on general offer

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

(xi) Rights on a compromise or arrangement

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

(xii) Rights on winding up

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

(xiii) Ranking of Shares

(aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association and will rank *pari passu* in all respects with the fully paid Shares in issue at the date of allotment (except in relation to a divided or distribution previously declared or recommended or resolved to be paid or paid) if the record date thereof shall be before such date of allotment.

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

(xiv) Cancellation of Options

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

(xv) Period of the Share Option Scheme

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

(xvi) Alteration to the Share Option Scheme

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

(xvii) Administration of the Share Option Scheme

The Company will bear the costs of establishing and administering the Share Option Scheme and the Share Option Scheme will be administered by a committee comprising the independent non-executive Directors.

(xviii) Termination of the Share Option Scheme

The Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme. In such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

(xix) Price Sensitive Development

Any grant of options will not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results, no option will be granted until such information has been so announced.

(xx) Others

The Share Option Scheme is conditional on the GEM Listing Committee of the Stock Exchange granting approval of such scheme, the subsequent grant of options by the Company pursuant thereto and listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(b) *Present status of the Share Option Scheme*

Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

As at the date of this prospectus no options have been granted or agreed to be granted under the Share Option Scheme.

OTHER INFORMATION

14. Estate duty and tax indemnity

Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya have entered into the Deed of Tax Indemnity in favour of the Group (being material contract (c) referred to in paragraph 8 of this Appendix) to provide indemnities in favour of the Group on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance) to any member of the Group on or before the date of the Deed of Tax Indemnity. The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, the British Virgin Islands and the PRC.

Under the Deed of Tax Indemnity, Mr. Wu, Mr. Tung Fai and Mr. Yang Zhuoya have also given indemnities in favour of the Group on a joint and several basis in relation to, among other things, taxation which might be payable by any member of the Group in respect of any income, profits, gains earned, accrued or received on or before the date of the Deed of Tax Indemnity, save in certain circumstances including where provision has been made for such taxation in the combined audited accounts of the Group for the period ended 30th June, 1999.

15. Litigation

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

16. Sponsor

ICEA, together with the Company, has made an application to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, and Shares which may fall to be issued upon the exercise of options which may be granted under the Share Option Scheme on GEM.

17. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US\$2,500 and are payable by the Company.

18. Promoter

(a) The promoter of the Company is Mr. Wu Shaoning.

- (b) Save as disclosed in this prospectus, and in particular, in paragraphs 1, 4 and 11 of this Appendix and note (f) of paragraph 3 of Appendix I to this prospectus, within the two years preceding the date of this prospectus, no cash, securities or benefit has been paid, allotted or given to the promoter named in sub-paragraph (a) above or proposed to be paid, allotted or given, to the said promoter.

19. Qualifications of experts

The qualifications of the experts who have given their opinion which is contained in this prospectus are as follows.

Name	Qualification
ICEA	Registered dealer
Arthur Andersen & Co	Certified public accountants
Charles Chan, Ip & Fung CPA Ltd	Certified public accountants
Sallmanns (Far East) Limited	Chartered surveyors
Conyers Dill & Pearman, Cayman	Cayman Islands barristers and attorneys
Guangzhou Foreign Economic Law Office	PRC lawyer

20. Consents of experts

ICEA, Arthur Andersen & Co, Charles Chan, Ip & Fung CPA Ltd, Sallmanns (Far East) Limited, Conyers Dill & Pearman, Cayman and Guangzhou Foreign Economic Law Office have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

21. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

22. Taxation of holders of Shares

(a) *Hong Kong*

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

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

(b) *Cayman Islands*

Under the present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

(c) *Professional tax advice recommended*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

23. **Miscellaneous**

(a) Save as disclosed herein:

(i) within two years preceding the date of this prospectus

(aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and

(bb) no commission, discount, brokerage or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries,

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option, and

(iii) there has been no material adverse change in the financial or trading position or prospects of the Group since 30th June, 1999 (being the date to which the latest audited combined financial statements of the Group were made up).

(b) The Company has no founder shares, management shares or deferred shares.

(c) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Bank of Bermuda (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by HKSCC Registrars Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

(d) All necessary arrangements have been made to enable the Shares to be admitted to CCASS.

(e) The management shareholders, the substantial shareholders and the controlling shareholder of the Company and their respective associates and the Sponsor have no interest in a business which competes or may compete with the business of the Group and have no conflict of interest with the Group.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the white and yellow application forms, the statement of adjustments made by Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd. in preparing their accountants' report set out in Appendix I, the written consents referred to in paragraph 20 of the section headed "Other Information" of Appendix V and copies of the material contracts referred to in paragraph 8 of the section headed "Further Information about the Business of the Group" of Appendix V.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Fong & Ng in association with Goodman Phillips & Vineberg, Solicitors, 8th Floor, China Building, 29 Queen's Road Central, Central, Hong Kong during normal business hours up to and including 30th November, 1999:

- (a) the memorandum of association of the Company and the Articles of Association;
- (b) the accountants' report on the Group prepared by Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd., the texts of which are set out in Appendix I;
- (c) the statement of adjustments for the accountants' report on the Group made by Arthur Andersen & Co. and Charles Chan, Ip & Fung CPA Ltd.;
- (d) the letters relating to the profit forecast, the texts of which are set out in Appendix II;
- (e) the letter, summary of value and valuation certificate prepared by Sallmanns (Far East) Limited, the texts of which is set out in Appendix III;
- (f) the rules of the Share Option Scheme;
- (g) the Companies Law;
- (h) the letter prepared by Conyers Dill & Pearman, Cayman summarising certain aspects of Cayman Islands company law as referred to in paragraph 4 headed "General" in Appendix IV;
- (i) the service contracts of the Directors referred to in paragraph 11(b) of the section headed "Further Information about Directors, Senior Management and Staff" of Appendix V;
- (j) the material contracts referred to in paragraph 8 of the section headed "Further Information about the Business of the Group" of Appendix V including, where appropriate, certified English translations thereof; and
- (k) the written consents of experts referred to in paragraph 20 of the section headed "Other Information" of Appendix V.