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 Yuen 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.

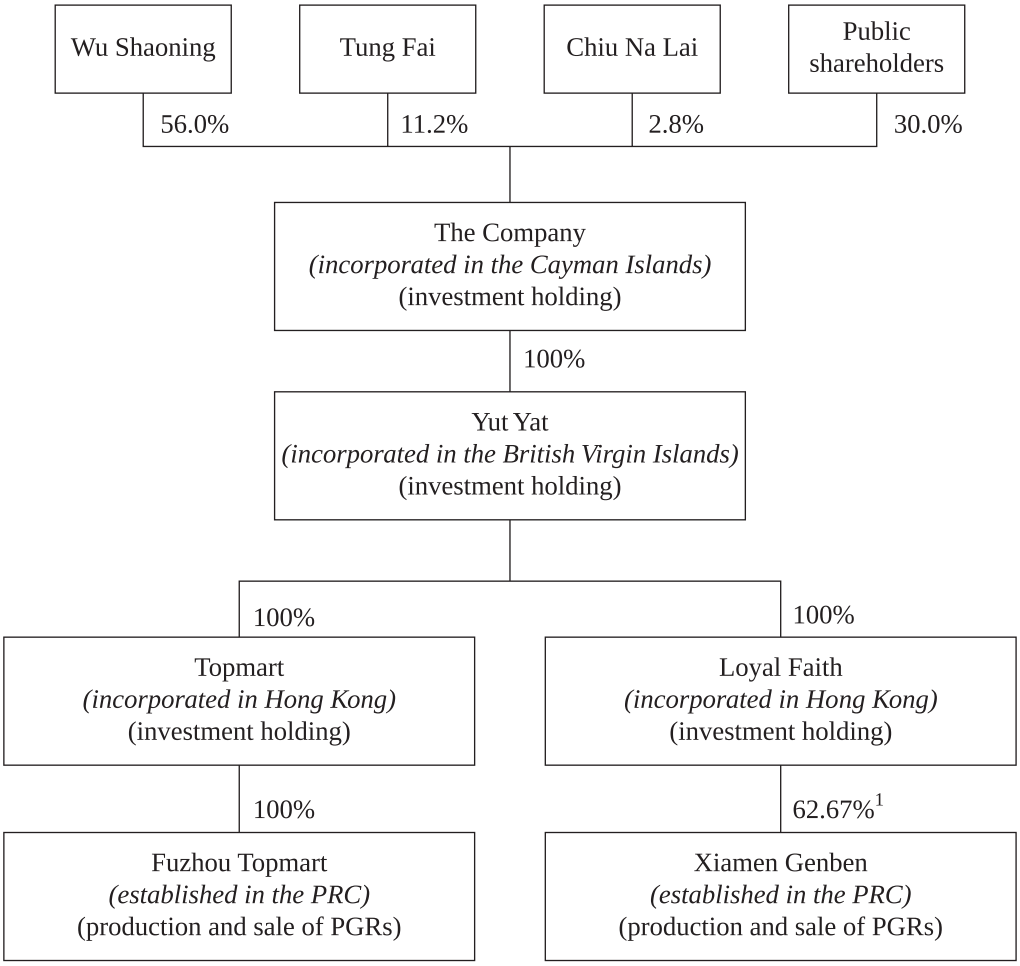
Pursuant to a licensing agreement entered into in July 1999, the Chaoda Group granted Fuzhou Topmart the exclusive right (together with Xiamen Genben) to use the "超大" trade mark and brand name in connection with the production and sale of PGR products in the PRC and Hong Kong for a fixed term of 25 years 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.

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, 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	
	(HK$'000)	*(%)*	*(HK$'000)*	*(%)*
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%
Total raw material costs	703	35.2%	3,292	54.1%
Total production costs	1,997	100.0%	6,085	100.0%
Turnover	4,534		21,065	

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.

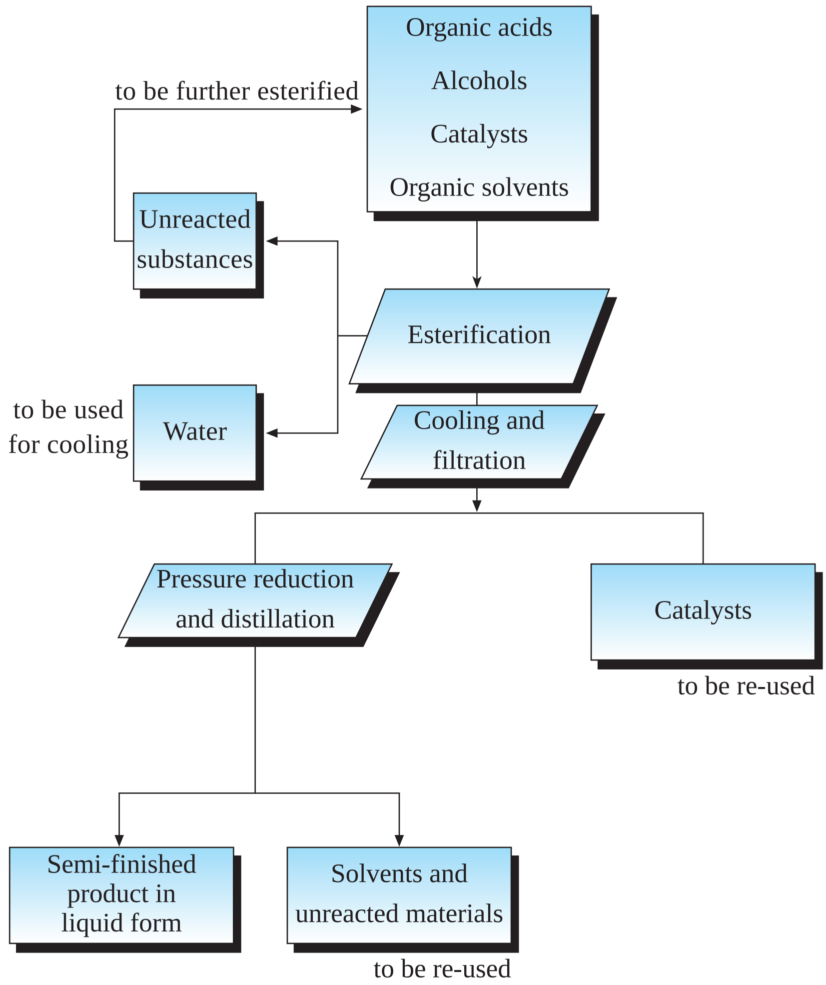
In each of the two years ended 30th June, 1998 and 1999, the largest five suppliers of the Group, together, accounted for approximately 88.1% and 74.8% respectively, and the largest supplier accounted for approximately 37.2% and 26.5% respectively, of the Group's total purchases. None of the Directors, 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:

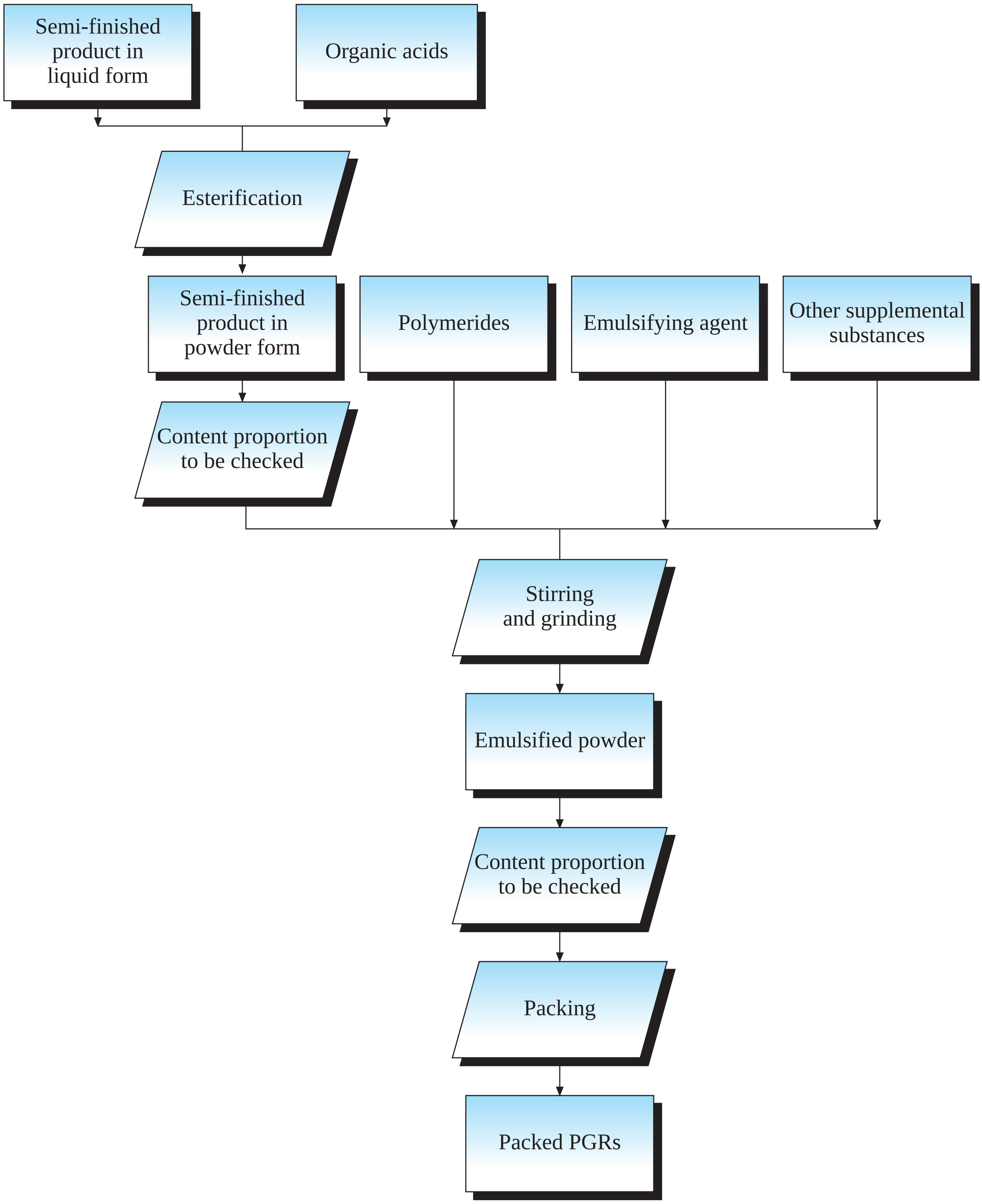
(a) Production process leading to semi-finished product in liquid form



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



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 thoughout 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.

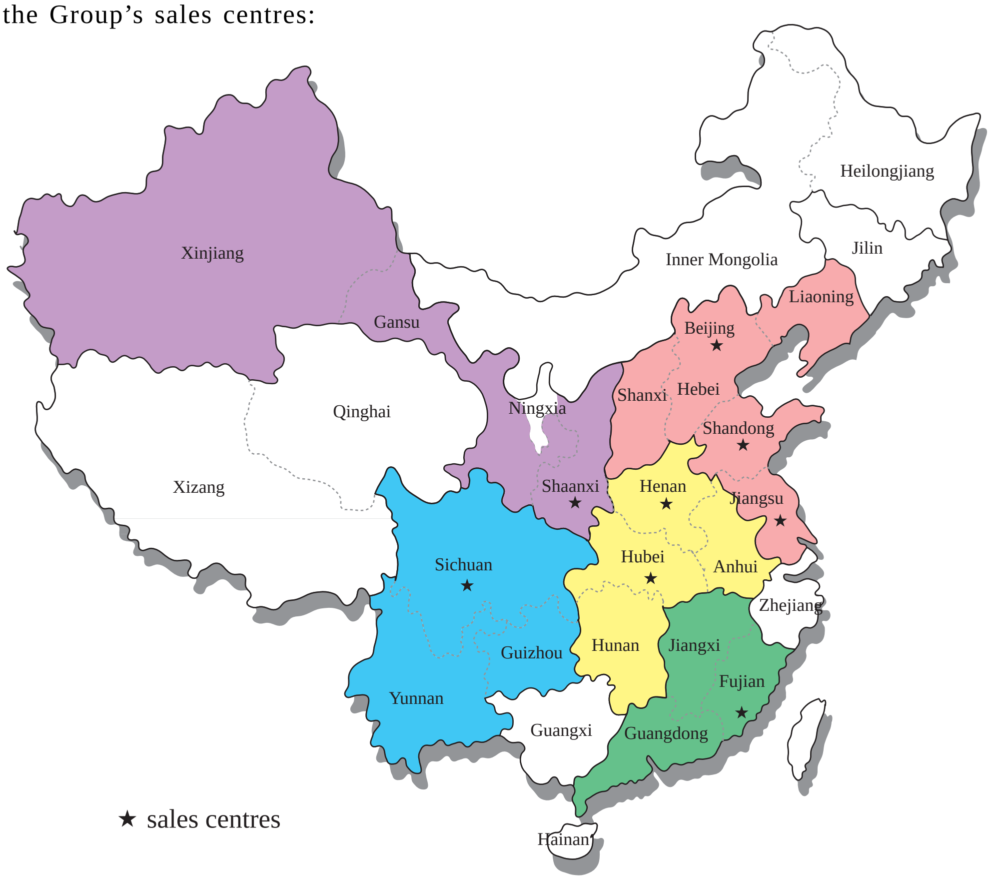
The Group's products are sold with detailed printed information on their functions, specifications and method of application. The Group's sales and technical staff makes regular visits to its major customers to provide technical guidance on the use of its products and to collect customers' feedback on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

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:

	For the year ended			
	30th June, 1998		30th June, 1999	
Region	**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:



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.

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.

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

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 Chu 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

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.