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 of 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.

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	(1,975)	(5,961)
Gross profit	2,559	15,104
Selling, general and administrative expenses	(561)	(5,838)
Profit before taxation	1,998	9,266
Taxation	—	(286)
Profit after taxation but before minority interests	1,998	8,980
Minority interests	(746)	(3,458)
Profit attributable to shareholders	1,252	5,522
Dividends	—	4,000
Earnings per share(1)	0.72 cents	3.16 cents

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.

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 starting from its first year of profitable operation after offseting 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

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.

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.

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:

	HK$'000
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	79,400
Adjusted net tangible assets	86,508
Adjusted net tangible asset value per Share *(Note)*	HK$0.346

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.