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

Leakage or publication of confidential technical know-how

A special feature of the Group's pesticides lies in the application of the Propulsive Agent technology which is a combination of two or three organic chemical materials. 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 know-how that is key to the Group's production process and is known only to Mr. Lao Seng Peng, the chairman of the Company, Mr. Yuen Leong, Prof, Cai and the Senior Managers of the Group. Mr. Lao Seng Peng and such other personnels are bound, by their service contracts with the Company, to observe strict confidentiality in respect of the Group's production know-how permanently unless such confidential information becomes public. The Group has applied the technology to the SIPO for patent registration in October 2000 and the formula of the technology will be available for public notification from March 2002 being 18 months after the date of application. Following such public notification, there is a risk that the technology may be copied by unauthorised parties. During such notification period, the Group cannot prohibit other independent inventions which use the same technology as that under the Group's patent application. If a similar technology is not independently developed and an unauthorised third party plagiarizes or pirates the Group's announced technology, the Group is entitled to file a claim to the People's Court of the PRC and seek an order to prohibit utilisation of the technology and claim for payment of an appropriate fee and compensation for any loss to the Group. However, such claim or compensation may not be obtainable due to the result of court judgement and the defendant's financial strength.

Any leakage of the formula relating to the technology before March 2002 or the publication thereof after March 2002 in respect of the Group's production know-how during the notification period may have a material adverse effect on its business.

Application for patent may not be approved

According to searches conducted at the SIPO at the instructions of the Directors, there is currently no patent registration in respect of technical know-how related to the production of Propulsive Agent with the SIPO. Accordingly, the Directors believe that the process by which the Propulsive Agent is produced has remained to be a proprietary knowledge to the Group. In October 2000, the Group applied to the SIPO for patent registration in respect of the technical know-how relating to Propulsive Agent production. According to the PRC legal advisers to the Company, it is the policy of the SIPO to complete the entire registration process up to three years. Hence, the Directors expect the registration of the Group's patent under application to be completed by October 2003.

Investors should be aware that, however, there is no assurance that the Group's patent application to the SIPO 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.

In addition, should its competitors independently develop similar products before the Group has obtained the SIPO's approval, although such products are subject to tests and verifications to be undergone for 2 years and at 2 locations and shall not cause immediate competition, the Directors, however, believe that it will create an adverse impact on the Group's business in the future.

Dependence on continuing research and development

The Propulsive Agent technology is the key to the production which provides the competitive advantage over other paddy pesticides. The Group will place continued emphasis on research and development and will closely monitor technology development in the industry. Investors should, however, be advised that, over time, it is possible that paddy pesticides applying the Propulsive Agent technology 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.

Reliance on one processing agent

The Group's production centre in Fuzhou, the PRC focuses mainly on the manufacturing of Propulsive Agent. The manufacturing processes of the pesticides and the addition of the Propulsive Agent to the pesticide are outsourced to an independent third party factory, Fuzhou No. 1 Refinery. Should this processing agent cease or unable to carry out the processing operation for the Group and the Group is unable to find suitable replacements immediately, its business and profitability may be adversely affected.

Reliance on the PRC market

For the two years ended 31st December, 2000 and the three months ended 31st March, 2001, all of the Group's turnover in respect of the sale of pesticides were derived in the PRC. The Directors anticipate that the PRC will continue to be the Group's largest market in the foreseeable future. Should there be any material adverse change in the political, economic, legal and social conditions in the PRC, the Group's business and profitability may be adversely affected.

Industry concentration

For the two years ended 31st December, 2000 and the three months ended 31st March, 2001, all of the Group's products, sales were generated from the paddy pesticides industry in the PRC. The performance and profitability of the Group might be adversely affected in the event that the demand for the Group's products from the paddy pesticides industry is unsustainable or decrease in the foreseeable future. The Group is diversifying its business into other agricultural produce industry in the PRC in an attempt to minimize its risk in industry concentration. However, there is no assurance on the Group's success in this new market sector.

Dependence on key personnel

The Group's success is, to a significant extent, built upon the technical know-how possessed by Prof. Cai, Mr. Lao Seng Peng, Mr. Yuen Leong and the Senior Managers. Each of the executive Directors has entered into service contract with the Group for a fixed term of 3 years expiring around 2004 and each of Senior Managers has entered into a service contract with the Group for a fixed term of 5 years expiring around 2005 (subject to the Group's right of termination in certain circumstances). In addition, there is a restrictive covenant in these service contracts which restrict these personnels to engage or be engaged in the same industry for a period of 3 years after termination of the service. Each of them is obliged not to divulge confidential information or to engage in competing business with the Group during the term of his service contract and for three years after its expiry or termination. The loss of Prof. Cai or any of the other key technical personnel and any of the Senior Managers 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.

Potential product liability

The Company does not currently maintain any product liability insurance for the products sold or distributed by it. Furthermore, the Company's sales contracts do not contain such terms as to allow customers to claim damages against the Group in the event of product failure. Although the Group has not received and is currently not aware of any claims or complaints against the Group's products so far, there is no assurance that such claims and complaints will not arise in the future. Should any product liability claims be brought against the Company, there is no assurance that it would not have an adverse effect on the performance and profitability of the Company.

Limited track record and regional distribution

As the Group is still at the early stage of development, limited sales history is available. The main operation of the Group is restricted to Fuzhou, the Fujian Province, and sales of the Group are mainly limited to the Fujian Province, Anhui Province (安徽省), Jiangshu Province (江蘇省) and Jiangxi Province (江西省). In the event that the sales of any of these provinces drop significantly and the Group is not able to obtain new customers from new provinces, the Group's business and financial position may be adversely affected.

Seasonal fluctuations of sales

As the volume of orders placed by its sales agents and distributors are subject to seasonal fluctuations of the paddy rice industry in the PRC, turnover of the Group is correspondingly subject to the seasonal fluctuations. The sales of the Group will increase during the second calendar quarter and the third calendar quarter as a result of the cropping seasons of paddy rice in the PRC and may decline during other periods. Such phenomena is likely to introduce a seasonal element to the Group's turnover, which could have a material adverse effect on the Group's liquidity and financial condition.

Product concentration

Sales of the Group's Sha Shi Ba (殺虱霸) accounted for all of the Group's total turnover for the two years ended 31st December, 2000 and the three months ended 31st March, 2001 respectively. Therefore, the Group's turnover and profits may be materially affected by any fluctuation in the demand or market price of its product or any increase in competition.

Uncertainty in dividend payout

On 30th April, 2001, Goldigit Limited declared in aggregate, an interim dividend of HK$10 million for the three months ended 31st March, 2001 payable to its then shareholders. For the two years ended 31st December, 2000, the Group did not pay any dividends. The interim dividend was financed by internal resources of the Group. However, such dividend payments should not be used as a reference or basis for the determination of the Company's future dividend policy and there can be no assurance that the payment of dividends will be repeated. Further details on the dividend policy of the Company are set out in the section headed "Financial information" on page 106 of this prospectus.

Trust agreement in respect of Fujian Goldigit

On 21st March, 1998, Mr. Lao Seng Peng, the Chairman of the Group, entered into a trust agreement pursuant to which Ms. Liu Lan Hua was authorised to acquire and hold the 80% shareholding interest in Fujian Goldigit for and on behalf of Mr. Lao Seng Peng. The PRC legal advisers to the Company have confirmed that the trust agreement did not and does not contravene any PRC laws and is legally binding and enforceable by the relevant parties to the agreement. Ms. Liu Lan Hua transferred her interest in Fujian Goldigit to Goldigit Limited, a company wholly owned by Mr. Lao Seng Peng, on 25th September, 2000 and the transfer was approved by the relevant PRC authorities, namely, Fujian Province Foreign Trade and Economic Cooperation Bureau (福建省對外貿易經濟合作廳) and Fujian Province Industry and Commerce Administration Bureau of the PRC (福建省工商行政管理局).

Notwithstanding the foregoing and for whatever reason, if the above trust agreement is declared invalid or unenforceable under the PRC laws, and accordingly the legal status and/or operation of Fujian Goldigit are affected, it will have a fundamental adverse impact on its business operation and the Group will suffer a substantial loss.

The Chairman, Mr. Lao Seng Peng, has entered into a deed of indemnity with and in favour of the Company to provide indemnities, among other matters, against any depletion in value of assets, costs, fees, expenses, claims, losses, liabilities and proceedings which might be incurred or suffered by any member of the Group as a result of the trust agreement in respect of the Group's interest in Fujian Goldigit is declared or determined by any PRC court or relevant government authority to be illegal, invalid or unenforceable. Details of the deed of indemnity are set out in the paragraph headed "Estate duty, tax and other indemnities" in Appendix V to this prospectus.

RISKS RELATING TO THE INDUSTRY

Severe competition

The market for chemical pesticides is highly competitive. Within the PRC, there are over 1000 enterprises manufacturing and selling chemical pesticides. It is anticipated that competition will become more intense after China enters into the WTO and large international corporations will provide lower-priced, high-quality chemical pesticides. Although the Group's chemical pesticide is characterised by its cut-in technology, there is no assurance that the profitability of the Group will sustain since its competitors (including potential competitors) may adopt more aggressive pricing policies.

Development of biotechnology on crop protection may reduce the demand

The utilization of biotechnology in developing genetically modified crops has been gaining popularity within the agricultural industry in recent years. Development on genetically modified crops that have resistance to insects, fungi and herbicides, can minimize the probability of crop damages caused by the attacks of insects, fungi and herbicides. If such genetically modified crops are successfully developed, crop growers may tend to apply fewer pesticides on the field, which as a result, may affect the Group's business. Investors should, however, be aware that the impact of insect-tolerant crops on the insecticide market is remote since such crops may not be developed in the foreseeable future. In addition, the Directors believe that the development of insect-tolerant crops will not cause great impact on the pesticide industry, as certain amount of pesticides may still be applied to further minimize the probability of crop damages and to optimize yield.

RISKS RELATING TO THE PRC

Changes in the PRC laws and regulations which may have adverse impacts on the Group

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 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 prevent overheating of the economy. The official inflation rate was 8.3% in 1996 and 2.8% in 1997. The official deflation rate was 0.8% in 1998 and 1.8% in 1999. 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. Such measures or policies 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 this 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. 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.

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. After the completion of the Placing, the Group will also need foreign currency to meet the payment of any dividend declared by the Company. The Group's main operating subsidiary, Fujian Goldigit, receive all of its revenues in Renminbi. Fujian Goldigit is a wholly foreign-owned enterprise and hence, a FIE. It has been issued with "foreign exchange registration certificates" ("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 Fujian Goldigit'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 of the Group to satisfy 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.

Loss of favourable taxation treatments

The PRC subsidiary of the Group, Fujian Goldigit has been entitled to tax exemptions and concessions. In accordance with the applicable enterprise income tax law of the PRC, Fujian Goldigit is exempt from the enterprise income tax for the first two profitable years of operation i.e. from 1st January, 2000 to 31st December, 2001, and is entitled to a 50 per cent. relief on the standard enterprise income tax rate of 30% that would otherwise be charged for the succeeding three years from 1st January, 2002 to 31st December, 2004. Since the Group is engaged in the PRC agriculture business, the Group's products have been exempted from value-added tax from 1st June, 1998 to 31st December, 2001 under the relevant PRC law. There can be no assurance that the current exemptions and concessions will continue in the future. In the event of any changes, the profitability of the Group may be adversely affected. In addition, the exemption and concession from enterprise income tax will gradually cease to apply to the Group and the after tax profit of the Group will be adversely affected.

China's entry to the WTO intensifies competition faced by the Group

China is currently seeking to join as a contracting member of the WTO which uniformly regulates trade and tariffs among its contracting members. The PRC government has, on various occasions in the past 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 chemical pesticides 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, there can be no assurance that the business of the Group may not be materially adversely affected.

RISKS RELATING TO THE SHARES

Price volatility and liquidity of the Shares

Prior to the Placing, there has been no public market for any of the Shares and there can be no guarantee that an active trading market will develop, or if it does develop, there can be no guarantee that the market will be sustained following the completion of the Placing. In addition, the Issue Price for the Placing Shares has been determined by negotiation between the Company and the Underwriters. This price may not be indicative of the price at which the Shares will trade following the completion of the Placing and the trading price of Shares may fluctuate significantly. There can be no guarantee that the market price of the Shares will not fall below the Issue Price.

No moratorium against Shares held by Pre-IPO Investors

On 28th December, 2000 and 15th February, 2001, Mr. Lao Seng Peng transferred 5%, 4.5% and 4.5% of his shareholding interest in Goldigit Limited to three independent investors, namely Mr. Li Lai Ming, Ms. Ho Ping, Tanya and Mr. Tsang Man Chan respectively for consideration of HK$17,500,000, HK$15,750,000 and HK$15,750,000 respectively. Upon completion of the Reorganisation and the Capitalisation Issue, the Pre-IPO Investors hold approximately 190,380,400 Shares in aggregate representing about 14% of the total issued share capital of the Company immediately prior to the Placing. The Pre-IPO Investors will sell 85,000,000 under the Placing which results in their total shareholding to amount to 105,380,400 Shares immediately after the Placing. Such 105,380,400 Shares held by the Pre-IPO Investors are not subject to any moratorium as the Pre-IPO Investors are not subject to any restriction on disposal of the Shares under the GEM Listing Rules. The Company has been advised by the Pre-IPO Investors that it is the intention of the Pre-IPO Investors to hold the 105,380,400 Shares after the Placing as long term investment, and the Pre-IPO Investors may only consider to dispose of the Shares should they consider that the share price and turnover of the Shares are reasonably sustainable in respect of their disposal.

Accordingly, investors should take into account that disposal of the 105,380,400 Shares held by the Pre-IPO Investors may cause fluctuation in the market price of the Shares.

Forward-looking statements may not materialise

Forward-looking statements contained in this prospectus may be materially different from the actual results, performance and achievements of the Group or the industry in the future. There are various forward-looking statements in this prospectus which can be identified by the use of forward-looking terminologies such as “may”, “will”, “believe”, “expect”, “anticipate”, “estimate” and other similar words. These forward-looking statements reflect the expectations of the Directors as at the Latest Practicable Date and are based on numerous assumptions regarding the Group’s implementation plans, business strategies and the industry environment in which the Group operates or will operate. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Group to be materially different from any future results or performance expressed or implied by those statements. Potential investors of the Placing Shares should keep in mind that there can be no assurance that the forward-looking statements described in this prospectus will materialise.