INDEBTEDNESS

Borrowings

As at the close of business on 31st May, 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had an outstanding borrowing of approximately HK$3.9 million, which was due to a shareholder, Mr. Lao Seng Peng. The amount due to a shareholder is unsecured, interest free and repayable on demand. The outstanding balance as at 31st May, 2001 will be fully repaid after the listing of the Company's Shares on GEM. The repayment will be financed by internal resources of the Group.

Foreign exchange risk

The Group earns revenue and incurs costs and expenses mainly in RMB. This will continue to be the case following the listing of the Shares on GEM. After listing of its Shares on GEM, the Company's accounts will be stated in HK dollars and the payment of dividend will also be in HK dollars. The Group does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of RMB to other foreign currencies. The Directors believe that having regard to the working capital position of the Group and the convertibility of RMB to foreign currency in respect of current account items, the Group is able to meet its foreign exchange liabilities as they become due.

The Group's entire present operation is carried out in the PRC. All its receipts and payments in relation to the operation are denominated in RMB. In this respect, the Directors consider there is no currency mismatch in its operational cashflows and the Group is not exposed to any foreign currency exchange risk in its operation.

Disclaimer

Apart from loan from a shareholder and normal trade payables, the Group did not have outstanding at the close of business on 31st May, 2001 any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Amounts referred to in this indebtedness statement denominated in currencies other Hong Kong dollars have been translated into Hong Kong dollars at the relevant rates of exchange prevailing at the close of business on 31st May, 2001.

The Directors have confirmed that there have not been any material changes in the indebtedness and contingent liability of the Group since 31st May, 2001.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st May, 2001, the Group's total current assets were approximately HK$17.2 million, comprising inventories of approximately HK$0.3 million, trade and other receivables of approximately HK$0.1 million, prepayments and deposits of approximately HK$1.6 million and cash and bank balances of approximately HK$15.2 million. As at 31st May, 2001 the Group's total current liabilities were approximately HK$4.2 million, comprising trade and other payables of approximately HK$0.3 million and an amount due to a shareholder of approximately HK$3.9 million.

Financial resources

The Group financed its operations by means of equity funding, loan from a shareholder and funds generated from its business operations. As at 31st May, 2001, apart from loan from a shareholder and normal trade payables the Group did not have any other borrowings which would require cash outlay for settlement.

The Directors intend to finance the Group's future operations and capital expenditure principally through internally generated cashflows supplemented by bank financing or the raising of funds in international capital and debt markets,or through a combination of these methods, whichever the Directors may consider appropriate in the circumstances.

Commitments and contingent liabilities

As at 31st May, 2001, the Group had operating lease commitments of approximately HK$1.5 million. As at the same date, the Group had no material capital commitments and contingent liabilities.

Working capital

As at 31st May, 2001, the Group had working capital of HK$13.0 million. Taking into account the net proceeds of the issue of New Shares (see "page 85 – Reasons for the placing and 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.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

As at the Latest Practicable Date, the Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

TRADING RECORD

The table below sets out a summary of the combined audited results of the Group for the period from 21st March, 1998 (being the date on which 80% interest in Fujian Goldigit were deemed to be acquired by the Group) to 31st December, 1998, each of the two years ended 31st December, 2000 and three months ended 31st March, 2001 prepared on the assumption that the current structure of the Group had been in existence throughout the periods under review and is extracted from and has been prepared in accordance with the basis set out in section 1 of the accountants' report in Appendix I to this prospectus.

	21st March, 1998 to 31st December, 1998	Year ended 31st December,		3 months ended 31st March, 2001
		1999	2000	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	–	170	6,422	16,661
Cost of sales	–	(296)	(2,755)	(5,580)
Gross (loss)/profit	–	(126)	3,667	11,081
Other revenue	–	1,472	1	15
Selling expenses	–	(86)	(69)	(32)
Administrative expenses	(403)	(367)	(415)	(289)
Research and development costs	–	(437)	(62)	(447)
(Loss)/profit from operations	(403)	456	3,122	10,328
Income taxes	–	–	–	–
Net (loss)/profit after taxation but before minority interests	(403)	456	3,122	10,328
Minority interests	81	(91)	42	–
(Loss)/profit attributable to shareholders	(322)	365	3,164	10,328
Interim dividend	–	–	–	10,000
(Loss)/earnings per Share, basic (cents) *(Note)*	(0.02)	0.03	0.23	0.76

Note: The calculation of the basic (loss) earnings per Share for the period from 21st March, 1998 to 31st December, 1998 and each of the two years ended 31st December, 2000 and the three months ended 31st March, 2001 is based on the combined (loss)/profit for each of the respective period/years and on the 1,359,860,000 Shares as if those Shares had been in issue throughout the period from 21st March, 1998 to 31st December, 1998 and the two years ended 31st December, 2000 and the three months ended 31st March, 2001. There were no potential dilutive ordinary shares in issue during the period from 21st March, 1998 to 31st December, 1998 and the two years ended 31st December, 2000 and three months ended 31st March, 2001.

During the Relevant Track Record Periods, the Group (i) had an amount due to a shareholder on which no interest expenses were charged; and (ii) produced the Propulsive Agent with the production facilities provided by the transferor, from whom the knowhow of the Group was acquired, free of charge. Had (i) the amount due to a shareholder been interest bearing at the prevailing best lending rates in Hong Kong during the Relevant Track Record Periods; and (ii) the production facilities been acquired by the Group on 1st July, 1998, being the date when the Group was deemed to have commenced its production, to 30th September, 2000, being the date when the Group acquired the production facilities, the Directors consider that the combined results of the Group after minority interests for the Relevant Track Record Periods would have been adjusted by the following notional amounts:

	21st March, 1998 to 31st December, 1998	**Year ended 31st December, 1999**	**2000**	**3 months ended 31st March, 2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net (loss) profit for the period as set out under combined results above	(322)	365	3,164	10,328
Notional adjustments:				
Interest expenses on amount due to a shareholder	(160)	(199)	(287)	(79)
Cost of production facilities *(Note)*	(293)	(584)	(445)	–
	(453)	(783)	(732)	(79)
Amounts attributable to minority interests	59	117	89	–
Adjusted (loss) profit for the period	(716)	(301)	2,521	10,249

Note: Cost of production facilities is computed based on the assumption that the Group had acquired the production facilities in July 1998 for its own production of the Propulsive Agent and the acquisition was financed by the external borrowing funds at interest rates prevailing in the PRC during the Relevant Track Record Periods. The cost of production facilities comprised the depreciation charged on the production facilities and interest cost together with other related expenses.

OVERVIEW OF RESULTS OF OPERATIONS

Period from 21st March, 1998 to year ended 31st December, 1999

All of the Group's turnover during the track record period was derived by Fujian Goldigit, a subsidiary of the Group operated in the PRC. Turnover of the Group are the amounts received and receivable for goods sold to outside customers, less returns, allowances and sales tax.

For the period from 21st March, 1998, being the acquisition date of Fujian Goldigit to 31st December, 1998, the Group incurred approximately HK$0.4 million administrative expenses for the period of which approximately HK$0.2 million represented the amortization of licence right.

For the year ended 31st December, 1999, the product Sha Shi Ba (殺虱霸) was launched and sold in the Fujian Province. Since the product was new to the pesticide market, the Group placed emphasis on attending seminars, organising training courses for farmers etc., to market and promote its products. As a result, only a small sum amounting to approximately HK$0.2 million, was recognised by the Group as its turnover for the year ended 31st December, 1999.

During the year 1998, the research and development activities of the Group were performed under the locations of Harbin Institute of Technology which provided the necessary equipment for such activities. As a result of the acquisition of the manufacturing and distribution rights of Sha Shi Ba (殺虱霸) according to the memorandum signed between the Group and Harbin Institute of Technology dated 3rd January 1998, the equipment and premises were provided free of charge until September, 2000 to the Group for further development on Sha Shi Ba (殺虱霸).

Year ended 31st December, 2000 compared with year ended 31st December, 1999

Turnover

For the year ended 31st December, 2000, the turnover of the Group amounted to approximately HK$6.4 million, an increase of approximately 36.77 times compared with the turnover of approximately HK$0.17 million for the year ended 31st December, 1999.

The significant increase in turnover was due to significant increase in sales of Sha Shi Ba (殺虱霸) which received positive feedback on its quality and functions from farmers in Fujian Province.

In addition, the significant increase in turnover for the year ended 31st December, 2000 was also due to the expansion of the sales of Sha Shi Ba (殺虱霸) to other provinces, namely Anhui, Jiangxi and Henan Provinces. As the demand of the Sha Shi Ba (殺虱霸) gradually increased in the year of 2000, the Group requested the sales agents to bear the delivery costs and as a result only a small sum of delivery costs was incurred in the year of 2000. There are 5 sales agents in other provinces and there were 68 sales agents in the Fujian Province.

During the years 1999 and 2000, all the sales of the Group were consignment sales and the Group had established two control procedures to ensure the sales were accurate. They were to review the monthly consignment sales report prepared by the sales agents and to perform quarterly inventory count in the sales' agent locations. In addition, the Group collected the cash proceeds from the sales agents on a monthly basis. For the last month of the year, all consignment goods were to be returned to the Group or the sales agents settled all outstanding balances with the Group in cash before the end of year.

Gross profit

The gross profit of the Group was solely contributed to the sales of Sha Shi Ba (殺虱霸). For the year ended 31st December, 2000, the gross profit of the Group was approximately HK$3.7 million, while that of the year ended 31st December, 1999 was a gross margin loss of approximately HK$0.1 million. The reason for the gross margin loss for the year ended 31st December, 1999 was that the sales of the product could not cover the fixed overhead costs of the product. With the significant increase in sales of the product during the year ended 31st December, 2000, the Group enjoyed the economies of scale and the gross profit margin increased significantly to approximately 57.1 per cent..

Administrative expenses

For the year ended 31st December, 2000, the administrative expenses of the Group amounted to approximately HK$0.4 million, representing approximately 6.5 per cent. of the Group's turnover and an increase of approximately HK$0.05 million or approximately 13.1 per cent. over the same period last year. The increase in administrative expenses was mainly due to the increase in number of staff from 19 at the end of 1999 to 31 at the end of 2000 and increase in general office expenses.

Other revenue and research and development costs

During the year 1999, government grants of approximately HK$1.47 million was issued by Government institutions and used for the research and development of Sha Shi Ba (殺虱霸) and any related pesticides applying the Propulsive Agent. Since the Group has completed the development of Sha Shi Ba (殺虱霸) and Dao Ying Wen Jing during this year, the grants were recognised by the Group as other revenue of the Group. The grants were one-off payments and no such revenue was earned by the Group afterwards. The research and development costs for the year ended 31st December, 1999 mainly represented the research and development expense incurred on Sha Shi Ba (殺虱霸). The significant decrease of research and development expenses for the year ended 31st December, 2000 because the product Sha Shi Ba (殺虱霸) was fully developed in 1999 and no such expenses were incurred in 2000.

Profit attributable to shareholders

Profit attributable to shareholders increased from approximately HK$0.4 million for the year ended 31st December, 1999 to approximately HK$3.2 million for the year ended 31st December, 2000, an increase of approximately 7.6 times over the previous year. Such increase was primarily due to a substantial increase in turnover coupled with the improvement in gross profit margin.

Three months ended 31st March, 2001

Turnover

For the three months ended 31st March, 2001, the turnover of the Group was approximately HK$16.7 million, representing approximately 2.6 times of the turnover of the Group for the year ended 31st December, 2000. The Directors consider that the Group's turnover has seasonal effect with higher turnover in the second and third quarters of the year similar to other paddy pesticides. The Directors also consider that it is not comparable between the turnover for the 3 months ended 31st March, 2001 to that of the 3 months ended 31st March, 2000 since the Group's product was not launched to the market until the second half of 2000 and the sales was accelerated from February, 2001 onwards. The significant increase in turnover for the three months ended 31st March, 2001 was due to the increase in sales of the product, Sha Shi Ba (殺虱霸) which continued to receive popular support from farmers. The Directors consider the significant increase in the sales of the product, Sha Shi Ba (殺虱霸) was due to the following reasons:

– A result of the Group's marketing and promotional activities during the years 1999 and 2000: The Group had engaged in many different activities, for instance, attending seminars, organizing training courses and distributing free samples to farmers, to promote its product, Sha Shi Ba (殺虱霸) during the years 1999 and 2000. As a result of these promotional activities, the Group's sales orders increased significantly during the three months ended 31st March, 2001.

– Geographical sales expansion of the product:

Regional Provinces	Year 2000 *HK$ million*	3 months Period ended 31st March, 2001 *HK$ million*
Fujian	5.6	5.9
Anhui	0.5	3.0
Jiangxi	0.2	1.8
Henan	0.1	2.2
Jiangsu	–	2.2
Hunan	–	1.5
	6.4	16.6

During the year 2000, the Group's products were sold in Fujian Province, Anhui Province, Jiangxi Province and Henan Province. Most of the sales of the Group were attributable to Fujian Province, approximately 87 per cent. of the total sales with the rest shared by the other provinces. For the three months ended 31st March, 2001, the Group's sales were also expanded to Jiangsu Province and Hunan Province. In addition, the sales in these provinces increased significantly. The sales in the other provinces (except Fujian Province) for the three months ended 31st March, 2001 were increased significantly to approximately 65 per cent. of the total sales of the Group.

Since the Group's product is receiving popularity from farmers, the Group changed the consignment sales policy to direct sales starting from 2001 onwards. From then on, the Group needs not to review the monthly sales reports prepared by the sales agents or perform any physical count of inventory at the sales agents' locations.

Gross profit

For the three months ended 31st March, 2001, the gross profit of the Group was approximately HK$11 million, representing approximately three times of the gross profit for the year ended 31st December, 2000. The increase in the gross profit was attributable to the significant increase in sales of the Group's product, Sha Shi Ba (殺虱霸). In addition, the gross profit percentage of the Group also increased from approximately 57.1 per cent. for the year ended 31st December, 2000 to approximately 66.5 per cent. for the three months ended 31st March, 2001. The increase in gross profit margin was mainly attributable to the economies of scale the Group continue to enjoy as a result of the significant increase in turnover.

Administrative expenses

The administrative expenses incurred by the Group from January to March 2001 were approximately HK$0.3 million, representing approximately 70 per cent. of the total administrative expenses for the year ended 31st December, 2000. The principal items comprising the administrative expenses were salaries and travelling expenses for the office staff. The reason for the sharply increase in salaries for the three months ended 31st March, 2001 was that the Group recruited more staff from 31 at the end of 2000 to 36 at the end of March, 2001. The sharply increase in salaries was not only due to the increase of 5 members of the staff, but also the increase in salary of the existing staff. For the three months ended 31st March, 2001, the travelling expenses increased because of the frequent travel of the management in order to prepare for the listing of the Group.

Research and development costs

The research and development costs incurred by the Group from January to March 2001 were approximately HK$0.4 million, representing general research expenses for identifying new products.

Profit attributable to shareholders

For the three months ended 31st March, 2001, the profit attributable to shareholders was approximately HK$10.3 million, representing approximately 3.3 times of the profit attributable to shareholders for the year ended 31st December, 2000. The increase was due to the significant increase in turnover and the gross profit of the Group during this period.

TAXATION

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong. Fujian Goldigit, a subsidiary of the Group established in the PRC, is subject to PRC enterprise income tax at the rate of 30%. However, it is exempted from such enterprise income tax for two years starting from its first year of profitable operation after offsetting prior year losses, followed by a 50% reduction in the next three years. The two-year tax exemption period of Fujian Goldigit expired on 31st December, 2001 and it is subject to PRC enterprise income tax at the reduced rate of 15% for the three years ending 31st December, 2004.

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 exempted from value-added tax under PRC tax regulations from 1st June, 1998 to 31st December, 2001.

PROPERTY INTERESTS

The details of properties leased by the Group are set out in Appendix III to this prospectus. Greater China Appraisal Limited, an independent property valuer, valued the property interest of the Group as at 31st March, 2001. Details of the values and the valuation certificates from Greater China Appraisal Limited are set out in Appendix III to this prospectus.

DIVIDEND POLICY

No dividends have been paid or declared by the Company since the date of its incorporation. However, on 30th April, 2001, Goldigit Limited declared a dividend of HK$10 million to its then shareholders in respect of the 3 months ended 31st March, 2001. The payment of dividend by Goldigit Limited was funded by its internal resources and no loan is arranged.

There is no assurance that dividends of similar amount or at similar rate will be made in the future and the past dividend payments referred to above should not be used as a reference or basis to determine the amount of dividend payable in the future.

On the basis of the profit forecast and in the absence of unforeseen circumstances, the Directors intend to recommend a final dividend of not less than HK1.1 cents per Share in respect of the financial year ending 31st December, 2001.

Any dividends payable in the future, will be announced by the Group in April or September of each year. The declaration, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Group's future operations and earnings, financial condition, cash requirements and availability, and other factors as may be deemed relevant at such time by the Directors.

DISTRIBUTABLE RESERVES

The Company was incorporated on 9th February, 2001 and has not carried on any business since its incorporation. Accordingly, the Company had no reserve available for distribution to shareholders as at 31st March, 2001.

For dividend purposes, the amount which the Group's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to the profits as reflected in their PRC statutory financial statements which are prepared in accordance with accounting principles and financial regulations applicable to enterprises with foreign investment ("PRC GAAP"). These profits differ from those that are reflected in accountants' report set out in Appendix I to this prospectus, which are prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants ("HK GAAP").

In accordance with the Law of the PRC on foreign enterprises, Fujian Goldigit is required to transfer an amount of not less than 10% of its profit after tax to the statutory reserve fund. In accordance with the Articles of Fujian Goldigit, the enterprise expansion fund and staff bonus and welfare fund, to which Fujian Goldigit, at the discretion of the Directors can appropriate before distribution of profits to shareholders. Since the amount to be appropriated to the enterprise expansion fund and staff bonus and welfare Fund are at the discretion of Directors of Fujian Goldigit, no appropriation of such funds were made by the Directors during the Relevant Track Record Periods.

Upon listing of the Shares on GEM, it's the Directors' current intention to distribute dividends based on the lower of the Group's profit determined under PRC GAAP and HK GAAP.

WORKING CAPITAL

The Directors are of opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds from the issue of the New Shares (excluding the Over-allotment Shares) under the Placing, the Group has sufficient working capital for its present requirements.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31st March, 2001 as shown in the accountants' report set out in Appendix I to this prospectus, adjusted as described below:

	HK$'000
Audited combined net assets of the Group as at31st March, 2001	13,420
Less: Intangible assets as at 31st March, 2001	(8,225)
Profit of the Group for the two months ended 31st May, 2001	20,498
Interim dividend declared on 30th April, 2001 *(Note 1)*	(10,000)
Estimated net proceeds of the issue of the New Shares (excluding the Over-allotment Shares) *(Note 2)*	158,000
Adjusted net tangible assets	173,693
Adjusted net tangible asset value per Share *(Note 3)*	10.22 cents

Notes:

1. On 30th April, 2001, an interim dividend amounting to HK$10 million was declared by Goldigit Limited, a wholly-owned subsidiary of the Company, to its existing shareholders registered as such on 29th April, 2001. Such interim dividend was paid on 31st May, 2001 and was financed out of the internal resources of the Group.

2. The estimated net proceeds of the issue of the New Shares (excluding the Over-allotment Shares) under the Placing is based on the Issue Price and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and of the options under the Share Option Scheme. If the Over-allotment Option is exercised in full, the estimated net proceeds of the issue of the New Shares under the Placing will be approximately $188.8 million.

3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 1,699,860,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares described in the paragraph headed "Written Resolutions of the Sole Shareholder of the Company Passed on 22nd June, 2001" in Appendix V to this prospectus.

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseen circumstances, and subject to the bases and assumptions set forth in Appendix II to this prospectus, the combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 2001 will amount to not less than HK$60 million. The forecast has been prepared by the Directors based on the audited combined results of the Group for the three months ended 31st March, 2001, unaudited combined results for the two months ended 31st May, 2001 and a forecast of the combined results of the Group for the remaining seven months ending 31st December, 2001 and on the basis that the Group had been in existence throughout the entire year. The Directors are not aware of any extraordinary items which have arisen, or are likely to arise, during the year ending 31st December, 2001. The texts of letters from Deloitte Touche Tohmatsu, the reporting accountants of the Group, and from CPY in respect are set forth in Appendix II to this prospectus.

On the basis of the above profit forecast and the weighted average number of approximately 1,526,599,726 Shares expected to be in issue during the year ending 31st December, 2001, the forecast earnings per Share is approximately HK$3.93 cents, representing a weight average prospective price/earnings multiple of approximately 12.72 times based on the Issue Price. This does not take into account the Shares which may fall to be allotted and issued pursuant to the Over-allotment Option and the exercise of the options to be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors referred to under "Written resolutions of the sole shareholder of the Company passed on 22nd June, 2001" in Appendix V to the prospectus, or otherwise.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, the Directors are not aware of any material adverse change in the financial or trading position or prospects of the Company or any of its subsidiaries since 31st March, 2001 (being the date to which the latest audited financial statements of the Group were made up).