
IMPORTANT

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



世纪阳光

CENTURY SUNSHINE ECOLOGICAL TECHNOLOGY HOLDINGS LIMITED 世紀陽光生態科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING AND PUBLIC OFFER

Number of Offer Shares	:	96,000,000 Shares comprising 86,400,000 Placing Shares and 9,600,000 Public Offer Shares
Number of Placing Shares	:	86,400,000 Shares (subject to reallocation) comprising 70,400,000 New Shares and 16,000,000 Sale Shares
Number of Public Offer Shares	:	9,600,000 New Shares (subject to reallocation)
Offer Price	:	HK\$0.55 for each Offer Share
Nominal value	:	HK\$0.10 each
Board lot	:	5,000 Shares
Stock code	:	8276

Sponsor



CSC Asia Limited

Financial Adviser, Bookrunner and Joint Lead Manager

Watterson Asia Limited
華德信亞洲有限公司

Joint Lead Manager



Partners Capital International Limited

Co-Lead Manager

CSC Securities (HK) Limited

Managers

First Shanghai Securities Limited

Kingston Securities Limited

G.K. Goh Securities (H.K.) Limited

Tai Fook Securities Company Limited

South China Securities Limited

Kingsway Financial Services Group Limited

Core Pacific – Yamaichi International (H.K.) Limited

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

A copy of this prospectus, together with the documents specified under "Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

Prior to making an investment decision, prospective investors should carefully consider all the information set forth in this prospectus, including the risk factors set forth in the section headed "Risk factors" of this prospectus.

Prospective investors of the Offer Shares should note that Watterson Asia (for itself and on behalf of all other Underwriters), in consultation with Partners Capital, is entitled to terminate the Underwriters' obligations under the Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting arrangements for the Share Offer" in this prospectus at any time prior to 6:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date. Such events include, but without limitation to, act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out in Hong Kong or the PRC.

5 February 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

EXPECTED TIMETABLE OF THE SHARE OFFER

2004
(Note 1)

Application lists of the Public Offer open (Note 2) 11:45 a.m. on Tuesday, 10 February

Latest time for lodging **WHITE** and
YELLOW application forms 12:00 noon on Tuesday, 10 February

Application lists of the Public Offer close 12:00 noon on Tuesday, 10 February

Announcement of the level of indication of
interests in the Placing, the results of
applications in respect of the Public Offer
and the basis of allotment of the Public Offer
Shares (with successful applicants identification
number, where appropriate) to be published
on the GEM website at www.hkgem.com
and in the South China Morning Post (in English) and
the Hong Kong Economic Times (in Chinese)
on or before Friday, 13 February

Share certificates to be posted or available
on or before (Notes 3, 5, 6 and 7) Friday, 13 February

Refund cheques in respect of wholly or partially
unsuccessful applications to be posted or
available on or before (Notes 3 to 6) Friday, 13 February

Dealings in Shares on GEM to commence on Tuesday, 17 February

Notes:

1. All times refer to Hong Kong local time.
2. If there is a “**black**” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. to 12:00 noon on Tuesday, 10 February 2004, the application lists of the Public Offer will not open on that day. Please refer to the section headed “How to apply for the Public Offer Shares – Effect of bad weather on the opening of the application lists of the Public Offer” in this prospectus.
3. Applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more and have indicated on their Application Forms that they wish to collect their Share certificate and/or refund cheque, if any, in person may collect them from the Company’s Hong Kong share registrar, Tricor Investor Services Limited, between 9:00 a.m. and 1:00 p.m. on Friday, 13 February 2004 or on the date to be notified by the Company on the GEM Website and in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as the date of despatch of Share certificates and refund cheques.

EXPECTED TIMETABLE OF THE SHARE OFFER

Applicants being individuals who opt for collection in person must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for collection in person must be attended by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to Tricor Investor Services Limited.

4. Refund cheques will be issued in respect of wholly or partially unsuccessful applications under the Public Offer.
5. Applicants who apply on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or above may collect their refund cheques, if any, in person if they have indicated their wishes to do so on their Application Forms but may not collect their Share certificates in person, which will be deposited into CCASS for credit to their designated CCASS participant's stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
6. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms. Further details are set forth under "Collection/posting of Share certificates and refund cheques and deposit of Share certificates into CCASS" in the section headed "How to apply for the Public Offer Shares" in this prospectus.
7. No temporary documents of title will be issued.

Certificates for the Offer Shares will only become valid certificates of title at 6:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date if the Share Offer has become unconditional.

Prospective investors in the Offer Shares should note that Watterson Asia (for itself and on behalf of all other Underwriters), in consultation with Partners Capital, is entitled to terminate the Underwriters' obligations under the Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting arrangements for the Share Offer" in this prospectus at any time prior to 6:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date. Such events include, but without limitation to, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike in Hong Kong or the PRC.

If the Underwriters terminate their obligations under the Underwriting Agreement in accordance with its terms or otherwise, the Share Offer will not become unconditional and the certificates for the Offer Shares, notwithstanding that they may have been despatched to or collected by the applicants for the Offer Shares, will not become valid certificates of title.

TABLE OF CONTENTS

You should only rely on the information contained in this prospectus to make your investment decision. The Company and the Vendor have not authorised anyone to provide you with information that is different from that contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Vendor, the Sponsor, the Joint Lead Managers, all other Underwriters or any of their respective directors or affiliates or any other parties involved in the Share Offer.

	<i>Page</i>
Summary of this prospectus	
Business of the Group	1
Brief history and development of the Group	3
Products of the Group	4
Principal strengths of the Group	5
Business strategy of the Group	6
Trading record of the Group	8
Accountants' report for the two financial years preceding the date of this prospectus	9
Profit estimate for the financial year ended 31 December 2003	10
Statistics of the Share Offer	10
Proposed use of net proceeds from the New Issue	11
Shareholding structure of the Company	12
Risk factors	14
Definitions	15
Glossary of technical terms	23
Risk factors	
Risk relating to the business of the Group	25
Risk relating to the industry in which the Group operates	28
Political and economic risks	29
Risks relating to the Shares	32
Waivers from strict compliance with the GEM Listing Rules and the Companies Ordinance	34
Information about this prospectus and the Share Offer	
Directors' responsibility for the contents of this prospectus	39
Offer Shares are fully underwritten	39
Offer Shares to be offered in Hong Kong only	39
Role of Watterson Asia as financial adviser to the Company	40
Application for listing of the Shares on GEM	40
Hong Kong branch register of members	41
Professional tax advice recommended	41
Hong Kong stamp duty	42
Shares will be eligible for admission into CCASS	42
Commencement of dealings of the Shares on GEM	42

TABLE OF CONTENTS

	<i>Page</i>
Directors and parties involved in the Share Offer	
Directors	43
Parties involved in the Share Offer	44
Corporate information	47
Industry overview	
Overview of the agriculture industry in the PRC	49
Overview of the tea industry in the PRC	51
Demand for fertilizer products in the PRC	54
Supply of organic fertilizer products in the PRC	57
Regulations governing the PRC fertilizer industry	59
Business of the Group	
Business of the Group	60
History and development of the Group	62
Shareholding and corporate structures of the Group	66
Statement of active business pursuits of the Group	68
Principal strengths of the Group	75
Products of the Group	77
Sales and marketing strategy of the Group	80
Revenue model of the Group	82
Production process of the Group	83
Inventory control system adopted by the Group	87
Research and development of the Group	88
Raw materials and suppliers of the Group	90
Government grants and subsidies to the Group	94
Environmental issues	94
Competition	95
Intellectual property rights	98
Connected transactions	99
Statement of business objectives	
Business strategy of the Group	105
Implementation plans	106
Bases and assumptions	109
Proposed use of net proceeds from the New Issue	110
Directors, senior management and staff of the Group	
Management structure of the Group	112
Directors	112
Advisory panel of the Group	115
Senior management of the Group	116
Qualified accountant and company secretary	117
Compliance officer	117
Audit committee of the Board	118
Staff	118

TABLE OF CONTENTS

Page

Initial Management Shareholders, Significant Shareholders and the substantial shareholders of the Company

Initial Management Shareholders	120
Undertakings from the Initial Management Shareholders	121
Significant Shareholders	122
Substantial shareholders of the Company	122

Share capital of the Company

Ranking	123
Share Option Scheme	123
General mandate to allot and issue new Shares	124
General mandate to repurchase Shares	124

Financial information

Indebtedness	126
Liquidity, financial resources and capital structure	127
Trading record of the Group	128
Accountants' report for the two financial years preceding the date of this prospectus	129
Management's discussion and analysis of trading record	130
Taxation	135
Dividends	136
Property interest	137
Profit estimate for the financial year ended 31 December 2003	137
Working capital	139
Distributable reserves	139
Adjusted net tangible assets	139
No material adverse change	140

Underwriting arrangements for the Share Offer

Placing Underwriters	141
Public Offer Underwriters	141
Underwriting arrangements and expenses	141

Structure and conditions of the Share Offer

Price payable on application	148
Conditions of the Share Offer	148
The Share Offer	148
Offer mechanism – Basis of allocation of the Offer Shares	149
Reallocation of Offer Shares between the Public Offer and the Placing	150
Over-subscription in the Public Offer	151

TABLE OF CONTENTS

	<i>Page</i>
How to apply for the Public Offer Shares	
Which Application Form to use	152
Where to collect the Application Forms	152
How to complete the Application Forms	154
How many applications may you make	155
How much are the Public Offer Shares	156
Time for applying for the Public Offer Shares	156
Effect of bad weather on the opening of the application lists of the Public Offer	157
Circumstances in which you will not be allocated the Public Offer Shares	157
Collection/posting of the Share certificates and refund cheques and deposit of the Share certificates into CCASS	159
Commencement of dealing in the Shares on GEM	161
 Appendices	
I. Accountants' report	162
II. Profit estimate for the financial year ended 31 December 2003	186
III. Property valuation	190
IV. Summary of the constitution of the Company and Cayman Islands' Company Law	201
V. Statutory and general information	228
VI. Documents delivered to the Registrar of Companies and documents available for public inspection	260

SUMMARY OF THIS PROSPECTUS

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of the prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares.

There may be greater risk associated with any investment in companies listed on GEM than companies listed on the Main Board. There are risks associated with any investments. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OF THE GROUP

Based in Fujian province in the PRC, the Group is engaged in the research and development, production and sale of microbial compound fertilizer (複合微生物菌劑), organic fertilizer (有機肥) and organic compound fertilizer products (有機複混肥) for different agricultural applications. Microbial compound fertilizer and organic fertilizer products developed by the Group may be used in organic farming of tea, orchards and vegetable as well as other organic agricultural products, such as peanuts and rice. Organic compound fertilizer products developed by the Group may be used to produce pollution-free agricultural products, such as orchards, tea and vegetable.

Soil fertility is the key for plantation. Healthy soil should consist of minerals, water, air, organic matter (plant and animal residue), microorganisms, including bacteria, fungi and protozoa and a variety of insects and worms, of which a process that continually replenishes the soil and maintains soil fertility will be carried out. For sustained plant growth, it requires macro-nutrients and trace elements. Macro-nutrients include nitrogen, phosphorous, potassium, calcium, magnesium and sulphur. Trace elements include iron, manganese, copper and zinc. Soil must be capable of storing nutrients and conveying them to the plant root for healthy growth of the plants.

The Group’s microbial compound fertilizer products are produced from bacteria which are extracted from natural soil. The Group’s microbial compound fertilizer product contains nitrogen-fixing bacteria, phosphorus-liberating and potassium-liberating bacteria. Nitrogen-fixing bacteria help to release nitrate from atmospheric nitrogen into the form which can be easily absorbed by plants. Phosphorus-liberating and potassium-liberating bacteria facilitate phosphate and potassium in the soil to be converted into water soluble form which is suitable for plants. The Group’s microbial compound fertilizer products also contain macro-nutrients and trace elements, such as calcium, magnesium, iron, manganese, copper and zinc, which are in concentrated form and may be used separately or together with other types of organic fertilizers.

SUMMARY OF THIS PROSPECTUS

In addition to microbial compound fertilizer products, the Group also offers other types of organic fertilizer and organic compound fertilizer products for different agricultural applications. Organic compound fertilizer differs from organic fertilizer by containing prescribed inorganic components. Currently, the Group's organic fertilizer products include two products, namely, the "LU DI" (綠滴) organic tea fertilizer and the "LU DI" (綠滴) premium organic fertilizer. All of the Group's fertilizer products are sold by the Group under the "LU DI" (綠滴) trademark.

For the financial year ended 31 December 2001, sales of the Group's fertilizer products amounted to approximately RMB5,923,000, of which microbial compound fertilizer, organic fertilizer and organic compound fertilizer products accounted for approximately 65%, 28% and 7%, respectively. For the financial year ended 31 December 2002, sales of the Group's fertilizer products amounted to approximately RMB42,630,000, of which microbial compound fertilizer, organic fertilizer and organic compound fertilizer products accounted for approximately 43%, 36% and 21%, respectively. For the eight months ended 31 August 2003, sales of the Group's fertilizer products amounted to approximately RMB25,216,000, of which microbial compound fertilizer, organic fertilizer and organic compound fertilizer products accounted for approximately 38%, 37% and 25%, respectively.

In terms of the end users of the Group's products, for each of the Track Record Periods, approximately 50%, 53% and 56% of the Group's sales were sold to tea farmers, respectively, with the remaining 50%, 47% and 44%, respectively, were sold to farmers of other types of plantation, such as orchard and vegetables. All end users of the Group's products are Independent Third Parties in Fujian Province in the PRC. The Group conducts sales through its sales teams and appointed distributors. For each of the Track Record Periods, approximately 89%, 39% and 30%, respectively, of the Group's sales were directly made to customers and approximately 11%, 61% and 70%, respectively, of the Group's sales were made through appointed distributors. As at the Latest Practicable Date, the Group had 22 appointed distributors that were all Independent Third Parties in Fujian province in the PRC.

The Group's fertilizer products received recognitions from government authorities and independent organizations in the PRC. According to the information released by the PRC Agricultural Industry Information Website (中國農業信息網 www.agri.gov.cn) as at 2 January 2003, the Group's "LU DI" (綠滴) microbial compound fertilizer product was one of the 12 microbial compound fertilizer products registered with the Ministry of Agriculture of the PRC (中華人民共和國農業部). As at 20 March 2003, the Group's "LU DI" (綠滴) organic tea fertilizer product was one of the four organic fertilizer products approved by OTRDC. In addition, the Group's "LU DI" (綠滴) organic tea fertilizer product is certified by BCS for its compliance with the requirements of EU Regulation No. 2092/91 "Organic Production of Agricultural Products". This regulation contains the requirements for importing organic products from other countries to the European countries. Although the Group does not export its products to the European countries, the Directors believe that the recognition of the Group's organic tea fertilizer product by BCS will facilitate the Group's promotion of such product

SUMMARY OF THIS PROSPECTUS

to tea farmers who would like to export their tea products to the European countries. The BCS certification will expire on 31 October 2004.

The Group's production plant is located at Youxi (尤溪), Fujian province in the PRC. After completion of the expansion of its production capacity in June 2003, the Group's production plant currently has an annual production capacity of approximately 3,000 tonnes of microbial compound fertilizer products and approximately 20,000 tonnes of organic fertilizer products and organic compound fertilizer products. During the Track Record Periods, the Group also engaged the services of two subcontractors in Minhou (閩侯) and Luoyuan (羅源), Fujian province, the PRC, who were Independent Third Parties, to produce organic compound fertilizer products. The current annual production capacity of the Luoyuan plant is 20,000 tonnes of organic compound fertilizer products. The subcontracting arrangement with the Minhou plant was entered into in November 2001 and was expired in November 2002. This arrangement was not renewed as the Group engaged the Luoyuan subcontractor in January 2002 to replace the Minhou subcontractor. The subcontracting arrangement with Luoyuan plant will expire in December 2004. Particulars on the Group's production capacity and these subcontracting arrangements are set forth under "Production process of the Group" in the section headed "Business of the Group" in this prospectus.

BRIEF HISTORY AND DEVELOPMENT OF THE GROUP

Mr. Chi started the research and development of organic fertilizer products in January 1998 by initiating a research on microbial compound fertilizer. In December 1998, the prototype of microbial compound fertilizer was developed and put into field tests. In December 1999, after about a year of testing, the product was successfully developed and ready for commercial production. With a view to continue the research and development, production and sale of organic fertilizer products in the PRC, Mr. Chi established Youxi Greenland in January 2000, together with two other investors namely, Ms. Zou and Mr. Lin Pei Qiang (林培強), an Independent Third Party. After the establishment of Youxi Greenland in January 2000, the Group continued research and development of other types of fertilizer products which included organic fertilizer and organic compound fertilizer products. In June 2000, Sanming Century was established by Youxi Greenland and a younger brother of Mr. Chi, Mr. Chi Wen Qiang (池文強), with a view to undertaking research and development of a proprietary organic fertilizer processor to facilitate the commercial production of organic fertilizer products. In July 2002, in preparation for the listing of the Shares on GEM, Century Sunshine was established and became the holding company of Youxi Greenland in October 2002.

SUMMARY OF THIS PROSPECTUS

PRODUCTS OF THE GROUP

As at the Latest Practicable Date, the Group had the following four major types of fertilizer products, all of which were developed by the Group:–

Name of the products	Usage	Approximate selling prices to the appointed distributors of the Group as at the Latest Practicable Date (RMB per tonne)
“LU DI” microbial compound fertilizer (綠滴牌複合微生物菌劑)	Microbial compound fertilizer used alone or with other organic fertilizer products for the production of organic agricultural products	9,000
“LU DI” organic tea fertilizer (綠滴牌有機茶園專用肥)	Organic fertilizer product specifically for the production of organic tea	1,000 – 1,200
“LU DI” premium organic fertilizer (綠滴(精製)有機肥)	Organic fertilizer products for the production of organic agricultural products such as orchards, vegetables, tea, bamboo, lotus etc	700
“LU DI” organic compound fertilizer (綠滴牌有機複混肥)	Organic compound fertilizer products for the production of four types of pollution-free agricultural products, including tea, vegetables and green orchard, and non-green orchard	1,200

The Group obtained all approvals required for the production and sale of its products in the PRC and has renewed such approvals as needed. The Group’s “LU DI” (綠滴) microbial compound fertilizer product was first registered with the Ministry of Agriculture of the PRC on 15 February 2001 and the current registration will expire in October 2008. The Group’s “LU DI” (綠滴) organic tea fertilizer product was first certified by OTRDC on 16 March 2001 and the current certification will expire on 21 July 2004. The Group’s “LU DI” (綠滴) premium organic fertilizer products and the “LU DI” (綠滴) organic compound fertilizer products were first registered with the Agriculture Bureau of Fujian province, the PRC on 15 April 2001 and the current registration will expire on 15 April 2007. The Group will renew these registrations upon expiry in accordance with the then relevant governmental regulations. The Directors do not presently foresee any difficulties in renewing such registrations upon expiry.

Currently, the Group is in the process of developing the following new fertilizer products:–

- organic fertilizers specifically for lotus and bamboo shoot;
- humic acid organic fertilizer for general applications on vegetables, peanuts, orchards and etc;
- humic acid organic fertilizer specifically for tobacco plant;
- organic compound fertilizers specifically for three new types of vegetables namely root vegetables, leaf vegetables and tomato family;
- premium organic fertilizer specifically for flowers;

It is the Group’s policy to register the above new products with the Ministry of Agriculture of the PRC as and when appropriate.

SUMMARY OF THIS PROSPECTUS

PRINCIPAL STRENGTHS OF THE GROUP

The Directors consider that the Group's success is attributable to the following principal factors:—

Environmental-friendly products

The Group's microbial compound fertilizer and organic fertilizer products do not contain any synthetic chemical additives which are main components of inorganic fertilizers. Prolonged application of such synthetic chemical additives would lead to deterioration of soil condition and water pollution. Unlike inorganic fertilizers, organic fertilizers, including the Group's products, may facilitate the preservation of soil fertility and the prevention of some diseases on the plant. In 1998, the State Council of the PRC launched “沃土工程” (the “Rich Soil Project”) in the PRC with the objective of improving the deteriorating arable soil condition by promoting the usage of organic fertilizers. The Directors believe that the Group's products are consistent with this government policy and will contribute to the protection of the environment.

One of the few fertilizer products available in the PRC market with government recognitions

The Group's fertilizer products received recognitions from government authorities and independent organizations. As at 2 January 2003, the Group's “LU DI” microbial compound fertilizer was one of the 12 microbial compound fertilizer products registered with the Ministry of Agriculture of the PRC. As at 20 March 2003, the Group's “LU DI” (綠滴) organic tea fertilizer product was one of the four organic fertilizer products approved by OTRDC. In addition, the Group's “LU DI” (綠滴) organic tea fertilizer product is certified by BCS for its compliance with the requirements of EU Regulation No. 2092/91 “Organic Production of Agricultural Products”.

Proprietary production technology

The Directors believe that, by using the Group's patented organic fertilizer processor, the Group can produce high quality organic fertilizer products in a more efficient way, in terms of production cost and the time required, as compared with other producers in the PRC. By using the Group's organic fertilizer processor, raw materials such as livestock wastes and grain bran are treated and processed together with different types of processing bacteria. With the effect of the bacterial action and by the squeezing and grinding movement stimulated by the processor, moisture can be taken out from the processing material within three to five minutes. As a result, the overall production time is reduced and hence, the production efficiency is improved.

SUMMARY OF THIS PROSPECTUS

Growing demand for organic fertilizers in the PRC

In recent years, with the increase in health awareness amongst consumers in the PRC, the demand for green food, organic food or organic plantation have increased significantly in the PRC. As reported by the Guangdong Agricultural Information Web (廣東農業信息網 www.gd.agri.gov.cn) in May 2002, the annual production of green foods in the PRC has increased from a minimal amount in 1990 to 15 million tonnes in 2000. The production of green food products further increased to 25 million tonnes in 2002, as reported in March 2003 by the China Green Food Net (中國綠色食品農網 www.greenfood.org.cn) which is under the China Green Food Development Centre. In order to expedite the development of green food industry, the Ministry of Agriculture of the PRC has set a target for the annual production of green food products to reach approximately 45 million tonnes in 2005 as reported in May 2002 by the Guangdong Agricultural Information Web. The Directors believe that the current development in the organic and green food industry will result in growing demand for organic fertilizer products in the PRC.

Established sales and distribution channel

As at the Latest Practicable Date, the Group established a network of 22 appointed exclusive distributors, who are Independent Third Parties, in Fujian province in the PRC. For each of the Track Record Periods, approximately 11%, 61% and 70% of the Group's sales were conducted through these distributors, respectively. The Directors believe that the Group's sales and distribution channel is more effective than that commonly used by other fertilizer producers in Fujian province in the PRC, which are primarily distributed through local fertilizer stores. The Directors further believe that, by selling its products directly to end users either through its sales teams or appointed exclusive distributors, the Group is able to obtain information on the identity of the end users so as to establish on-going and direct business relationships with the end users by providing technical training and after-sales services.

BUSINESS STRATEGY OF THE GROUP

Expansion of the Group's production capacity

Given the expected increasing demand for fertilizer products in the PRC, the Group plans to increase its production capacity in Fujian province and Jiangxi province in the PRC by establishing new production facilities.

The Group plans to build two new production facilities in the Baisha village (白沙村) of Jianou (建甌) and Anxi (安溪), Fujian province, the PRC, each with an annual production capacity of approximately 20,000 tonnes of organic fertilizer products. Jianou is close to Wuyi mountain district, one of the major tea production areas in the southern Fujian province. Anxi is a major tea production area in the southern Fujian province. These new production facilities are expected to serve the increasing demand for organic fertilizer products in Fujian province, the PRC and nearby provinces, such as Zhejiang and Guangdong provinces, the PRC.

SUMMARY OF THIS PROSPECTUS

In addition, the Group plans to develop another production facility with an annual production capacity of approximately 20,000 tonnes of organic fertilizer products in Wuyuan (婺源), Jiangxi province, in the second half of 2005 to serve the demand of organic fertilizer products in Jiangxi and Anhui province, the PRC. Wuyuan is a major production area of green tea in Jiangxi province.

Upon completion of all the above production facilities, the Group's annual production capacity of organic fertilizer products and organic compound fertilizer products is expected to be increased from the current 20,000 tonnes to 80,000 tonnes. The Group also plans to gradually increase its production capacity of microbial compound fertilizers from the current 3,000 tonnes to 10,000 tonnes by building additional production facilities at the Youxi plant.

Expansion of the Group's sales and distribution channel

To cope with the Group's anticipated business expansion, eight additional sales and marketing staff were recruited by the Group in the PRC during the first half of 2003. Additional recruitment is expected for the first half of 2004. In addition, the Group will further promote the "LU DI" (綠滴) trademark through advertising. Besides, in order to improve the communications, logistics and productivity, the Group is prepared to establish computer networks connecting the Group's headquarters and production facilities with its appointed distributors.

With the view to increase the market coverage of the Group's organic fertilizer products, the Group plans to expand its operation by way of franchise arrangement in Fujian province, the PRC and in other PRC provinces to produce "LU DI" (綠滴) organic fertilizer products. This arrangement is expected to be implemented in 2005. Pursuant to this plan, the Group will supply its organic fertilizer processor and the processing bacteria to the franchisees for the production of organic fertilizers and will receive franchise fee according to the production volume. The franchisees will be responsible for the sale of the fertilizer products produced. The Group's market research showed that there are interests in such franchise arrangement in Fujian province, the PRC. The Directors confirm that, to the best of their knowledge, they are not aware of any fertilizer producers that are implementing the similar franchise arrangement in the PRC. **The Directors would like to emphasize that this proposed franchising arrangement is currently at the feasibility study stage and no details have been finalized and no franchisee has been identified. The management of the Group is not experienced in such arrangement and will seek professional advice when implementing such arrangement in accordance with the relevant laws and regulations in the PRC.**

Research and development of new organic fertilizer products and other agriculture-related environmental-protection projects

The Group will continue the research and development of organic fertilizer products specifically for other food products, such as the lotus plants and bamboo shoots. In addition, the Group will leverage on its existing technology to explore and develop various environmental-protection technology, such as biological insecticides for tea plantation, soil recovery technology and waste treatment project.

SUMMARY OF THIS PROSPECTUS

TRADING RECORD OF THE GROUP

The followings, except for the basic earnings per Share, is a summary of the combined audited results of the Group for the Track Record Periods. This summary has been prepared on the basis that the existing structure of the Group had been in existence throughout the years/periods under review and should be read in conjunction with the accountants' report, the text of which is set forth in Appendix I to this prospectus:–

	Note	Financial year ended 31 December		Eight months ended 31 August	
		2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Turnover	1	5,923	42,630	22,475	25,216
Microbial compound fertilizers		3,854	18,121	8,290	9,629
Organic fertilizers					
Organic tea fertilizers		1,622	14,231	9,915	8,323
Premium organic fertilizers		48	1,119	537	1,031
Sub-total		1,670	15,350	10,452	9,354
Organic compound fertilizers		399	9,159	3,733	6,233
Cost of sales		(3,140)	(19,177)	(11,334)	(12,005)
Gross profit		2,783	23,453	11,141	13,211
Distribution and selling expenses		(700)	(3,241)	(2,023)	(1,691)
General and administrative expenses		(1,433)	(2,702)	(1,955)	(1,851)
Research and development costs		(108)	(4,079)	(1,139)	(66)
Operating profit		542	13,431	6,024	9,603
Finance costs		(269)	(230)	(175)	(170)
Profit before taxation		273	13,201	5,849	9,433
Taxation		–	(11)	–	(28)
Profit after taxation		273	13,190	5,849	9,405
Minority interests		(504)	226	195	(22)
(Loss)/profit attributable to Shareholders		<u>(231)</u>	<u>13,416</u>	<u>6,044</u>	<u>9,383</u>
Dividends		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per Share – basic	2	<u>(0.096) cents</u>	<u>5.59 cents</u>	<u>2.52 cents</u>	<u>3.91 cents</u>

SUMMARY OF THIS PROSPECTUS

Notes:

1. Turnover represents revenue generated from the sales of microbial compound fertilizer products, organic fertilizer products (which include organic tea fertilizers and premium organic fertilizers) and organic compound fertilizer products.
2. The calculation of basic earnings per Share for each of the Track Record Periods is based on the (loss)/profit attributable to Shareholders during the relevant financial years/periods and 240,000,000 Shares deemed to be in issue throughout the Track Record Periods.

ACCOUNTANTS' REPORT FOR THE TWO FINANCIAL YEARS PRECEDING THE DATE OF THIS PROSPECTUS

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, *inter alia*, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Group during the three preceding years including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Group for three financial years immediately preceding the issue of the prospectus.

Pursuant to section 5(3) of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (L.N. 76 of 2001), all references to “3 preceding years”, “3 financial years” and “3 years” in paragraph 27 and 31 of the Third Schedule of the Companies Ordinance are substituted by a reference to “2 preceding years”, “2 financial years” and “2 years”, respectively, for a prospectus issued in relation to an application for listing of securities on GEM.

Pursuant to Rule 7.03(1) and 11.10 of the GEM Listing Rules, a new applicant is required to include in the prospectus its financial results covering at least two financial years immediately preceding the issue of the prospectus.

The accountants' report for each of the two financial years ended 31 December 2002 and the eight months ended 31 August 2003 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued shortly after 31 December 2003, the accountants' report has not been prepared for the full financial year ended 31 December 2003 as it would be unduly burdensome for the Group to do so.

In the circumstances, an application has been made to the Securities and Futures Commission (“SFC”) for a Certificate of Exemption from strict compliance with paragraph 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2003 in the prospectus and a Certificate of Exemption has been granted by the SFC on the ground that full compliance with paragraph 27 and 31 of the Third Schedule of the Companies Ordinance would be unduly burdensome.

SUMMARY OF THIS PROSPECTUS

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2003 in the prospectus and waiver has been granted by the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31 August 2003 and they are not aware of any event which would materially affect the information shown in the accountants' report of the Group, the text of which is set forth in Appendix I to this prospectus.

PROFIT ESTIMATE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

(Note 1)

Estimated combined profit after taxation and minority interests (Note 2)	not less than HK\$18,500,000
Estimated earnings per Share	
(a) weighted average (Note 3)	HK\$0.077
(b) pro forma fully diluted (Note 4)	HK\$0.058

STATISTICS OF THE SHARE OFFER

Number of Offer Shares	96,000,000
Number of Shares after Share Offer	320,000,000
Market capitalization	HK\$176,000,000
Estimated price/earnings multiple	
(a) weighted average (Note 5)	7.1 times
(b) pro forma fully diluted (Note 6)	9.5 times
Adjusted net asset value per Share (Note 7)	HK\$0.20

Notes:

1. The New Shares will rank pari passu in all respects with all other Shares in issue and to be issued as mentioned herein and, in particular, will rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus except for the Capitalisation Issue.
2. The bases on which the estimated combined profit after taxation and minority interests has been prepared and are set out in Appendix II to this prospectus. The Directors are not aware of any extraordinary items which arose for the financial year ended 31 December 2003.
3. The calculation of the estimated earnings per Share on a weighted average basis is based on the estimated combined profit after taxation and minority interests of the Group for the financial year ended 31 December 2003 and the weighted average number of 240,000,000 Shares in issue during the year, but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme or 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 referred to under "Written resolutions of the sole Shareholder passed on 31 January 2004" in Appendix V to this prospectus.

SUMMARY OF THIS PROSPECTUS

4. The calculation of the estimated earnings per Share on a pro forma fully diluted basis is based on the estimated combined profit after taxation and minority interests of the Group for the year ended 31 December 2003 assuming that the Company had been listed since 1 January 2003 and a total of 320,000,000 Shares have been in issue during the year, but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme or 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 referred to under “Written resolutions of the sole Shareholder passed on 31 January 2004” in Appendix V to this prospectus.
5. The estimated price/earnings multiple on a weighted average basis is based on the estimated earnings per Share on a weighted average basis of HK\$0.077 for the financial year ended 31 December 2003 and on the Offer Price.
6. The estimated price/earnings multiple on a pro forma fully diluted basis is based on the estimated earnings per Share on a pro forma fully diluted basis of HK\$0.058 for the financial year ended 31 December 2003 and on the Offer Price.
7. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to under “Adjusted net tangible assets” in the section headed “Financial information” of this prospectus and on the basis of a total of 320,000,000 Shares in issue and to be issued as mentioned herein, but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandate for the allotment and issue or repurchase of Shares referred to under “Written resolutions of the sole Shareholder passed on 31 January 2004”.
8. The exchange rate assumed for the above calculation is HK\$1 = RMB1.06.

PROPOSED USE OF NET PROCEEDS FROM THE NEW ISSUE

The net proceeds from the New Issue, after deduction of the expenses payable for the New Issue, are estimated to be approximately HK\$33,000,000. The Directors currently intend to apply such net proceeds in the following manner:–

- approximately HK\$7,000,000 for the construction of a new 20,000 tonne organic fertilizer production facility in Jianou (建甌), Fujian province, the PRC. Of the HK\$7,000,000, approximately HK\$1,500,000 for land acquisition, approximately HK\$2,500,000 for construction cost, approximately HK\$2,000,000 for purchase of equipment, and approximately HK\$1,000,000 for other ancillary facilities;
- approximately HK\$7,000,000 for the construction of a new 20,000 tonne organic fertilizer production facility in Anxi (安溪), Fujian province, the PRC. Of the HK\$7,000,000, approximately HK\$1,500,000 for land acquisition, approximately HK\$2,500,000 for construction cost, approximately HK\$2,000,000 for purchase of equipment, and approximately HK\$1,000,000 for other ancillary facilities;
- approximately HK\$7,000,000 for the construction of a new 20,000 tonne organic fertilizer production facility in Wuyuan (婺源), Jiangxi province, the PRC. Of the HK\$7,000,000, approximately HK\$1,500,000 for land acquisition, approximately HK\$2,500,000 for construction cost, approximately HK\$2,000,000 for purchase of equipment, and approximately HK\$1,000,000 for other ancillary facilities;

SUMMARY OF THIS PROSPECTUS

- approximately HK\$4,000,000 for research and development of new organic fertilizer products, biological insecticides and related technologies. Of the HK\$4,000,000, approximately HK\$400,000 for the completion of the soil replenish technology that maintains soil fertility so as to protect plants and ecological environment, and the city waste treatment technology; approximately HK\$2,600,000 for the development of biological insecticides, approximately HK\$1,000,000 for the development of the new organic fertilizers specifically for peanuts;
- approximately HK\$1,600,000 for the marketing and advertising of “LU DI” (綠滴) microbial compound fertilizer products and organic fertilizer products. Of the HK\$1,600,000, approximately 80% for media advertisements and 20% for organizing product seminars in the PRC.
- approximately HK\$400,000 for the installation of a computer system linking the Group’s head office, production facilities and sales agents; and
- the balance of HK\$6,000,000 for additional working capital of the Group. Of the HK\$6,000,000, approximately 40% for financing the purchase of raw materials, approximately 17% for maintenance of existing production facilities, approximately 30% for paying salaries, approximately 13% for paying administrative expenses.

A detailed timetable for the use of the net proceeds from the New Issue is set forth in the section headed “Proposed use of net proceeds from the New Issue” in this prospectus.

The Directors are of the view that the net proceeds from the New Issue and the Group’s internal resources would be sufficient to finance the Group’s business plans up to 31 December 2005.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the structure of the Company immediately following the completion of the Share Offer and the Capitalisation Issue:–

Name of Shareholders	Date on which Shareholding interest in the Company was first acquired	Number of Shares held immediately after completion of the Capitalisation Issue and before completion of the Share Offer	Number of Shares held immediately after completion of the Share Offer and the Capitalisation Issue	Approximate percentage of Shareholding immediately after completion of the Share Offer and the Capitalisation Issue (%)	Approximate cost of investment per Share (HK\$)	Total cost of investment (HK\$)	Moratorium period commencing from the Listing Date
Initial Management Shareholders							
Alpha Sino (Note 1)	11 March 2003	209,696,970	193,696,970	60.53	0.05	9,905,000	12 months
Go Modern Limited (Note 2 and 4)	(Note 3)	30,303,030	30,303,030	9.47	0.33	10,000,000	12 months
Public Shareholders		0	96,000,000	30.00			
		240,000,000	320,000,000	100			

SUMMARY OF THIS PROSPECTUS

Notes:

1. Alpha Sino is owned as to 80% by Mr. Chi and 20% by Ms. Zou, respectively. Alpha Sino, Mr. Chi and Ms. Zou are regarded as Initial Management Shareholders. Both of Mr. Chi and Ms. Zou first acquired the shareholding interest in Alpha Sino on 21 January 2003. Each of the Initial Management Shareholders has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that it or he or she shall not, during the Relevant Period, dispose of (or enter into any agreement to dispose of) any of its or his or her direct or indirect interest in any of the Shares and that such Shares shall be placed in escrow with an escrow agent acceptable to the Stock Exchange for the Relevant Period. Each of Mr. Chi and Ms. Zou has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that he or she shall not dispose of (or entered into any agreement to dispose of) any of his or her interests in Alpha Sino during the Relevant Period. The details of the undertakings from the Initial Management Shareholders are set forth under “Undertakings from the Initial Management Shareholders” in the section headed “Initial Management Shareholders, Significant Shareholders and the substantial shareholders of the Company” in this prospectus.
2. Go Modern Limited is owned as to 50% each by Mr. Shum and Ms. Wong and is principally engaged in the business of manufacturing and trading of textile products in Hong Kong. Both Go Modern Limited, Mr. Shum and Ms. Wong are regarded as Initial Management Shareholders. Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that it or he or she shall not, during the Relevant Period, dispose of (or enter into any agreement to dispose of) any of its or his or her direct or indirect interest in any of the Shares and that such Shares shall be placed in escrow with an escrow agent acceptable to the Stock Exchange for the Relevant Period. Each of Mr. Shum and Ms. Wong has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that he or she shall not dispose of (or entered into any agreement to dispose of) any of his or her interest in Go Modern Limited during the Relevant Period. The details of the undertakings from the Initial Management Shareholders are set forth under “Undertakings from the Initial Management Shareholders” in the section headed “Initial Management Shareholders, Significant Shareholders and the substantial shareholders of the Company” in this prospectus.
3. Go Modern Limited will be allotted and issued approximately 30,303,030 Shares (representing approximately 9.47% of the entire issued share capital of the Company immediately upon listing of the Shares on GEM) pursuant to the direction of Alpha Sino at the time of the Capitalisation Issue. In December 2002, Mr. Chi and Go Modern Limited entered into a loan facility agreement pursuant to which Go Modern Limited made available to Mr. Chi a loan facility in the principal sum of HK\$10,000,000 at an interest rate of 8% per annum. Under such loan facility agreement, Go Modern Limited is entitled to convert the principal sum of the loan of HK\$10,000,000 into Shares at a price equivalent to 60% of the Offer Price prior to the Share Offer. The conversion price of 60% of the Offer Price was determined at arm’s length negotiation between Mr. Chi and Go Modern Limited. The loan was subsequently drawn down by Mr. Chi in the sum of HK\$10,000,000 and thereafter, Mr. Chi in turn lent HK\$2,000,000 to each of Ms. Zou and Mr. Lin Pei Qiang, an Independent Third Party. Mr. Chi, Ms. Zou and Mr. Lin Pei Qiang then advanced HK\$6,000,000, HK\$2,000,000 and HK\$2,000,000, respectively, to Century Sunshine as shareholders’ loans to finance the acquisition of the Youxi Greenland for an aggregate cash consideration of approximately RMB10,500,000 representing the net asset value of Youxi Greenland as at 31 July 2002. According to the loan facility agreement, Mr. Chi is obliged to pay the interest on the loan of HK\$10,000,000 at an annual interest rate of 8%, solely on his own, in the event that Mr. Chi has not received the conversion notice from Go Modern Limited within 30 days from completion of the Reorganisation in which the Company becomes the ultimate holding company of Century Sunshine.
4. Each of Mr. Shum, Ms. Wong and Go Modern Limited has confirmed that save as disclosed in this prospectus, none of Mr. Shum, Ms. Wong, Go Modern Limited and any of his/her/its associates has entered into any other agreement or arrangement with any members of the Group and any of their directors, substantial shareholders, management shareholders and initial management shareholders and/or their respective associates, whether directly or indirectly.

SUMMARY OF THIS PROSPECTUS

RISK FACTORS

The Directors consider that the operations and the results of the Group are subject to certain risks which may be categorised into (i) risks relating to the business of the Group; (ii) risks relating to the industry in which the Group operates; (iii) political and economic risks and (iv) risks relating to the Shares. These risk factors are set out in the section headed “Risk factors” in this prospectus as follows:–

Risks relating to the business of the Group

- Risk of infringement of the Group’s intellectual property rights in the PRC
- Reliance on subcontractors
- Reliance on raw materials suppliers
- Reliance on tea industry in the PRC
- Reliance on distributors for the sales and distribution of the products of the Group
- Reliance on key management
- Reliance on bank borrowings
- Customers’ credit risk
- Product liability

Risks relating to the industry in which the Group operates

- Adverse weather condition affecting crop harvests
- Increasing competition
- Product substitution
- Change in regulation governing the use of organic fertilizer products in the PRC

Political and economic risks

- The PRC and renminbi
- HK dollars
- PRC legal and other regulatory considerations
- PRC enterprise income tax

Risks relating to the Shares

- An active trading market for the Shares may not develop and market price of the Shares may be volatile
- Shareholders’ interest may be diluted

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:–

“Alpha Sino” or “Vendor”	Alpha Sino International Limited (冠華國際有限公司*), a company incorporated on 18 December 2002 under the laws of BVI with limited liability and is owned, as to 80% Mr. Chi and 20% by Ms. Zou and an Initial Management Shareholder
“Application Form(s)”	WHITE application form(s) and YELLOW application form(s), or, where the context requires either of them, which are used by applicants under the Public Offer
“Articles”	the articles of association of the Company
“associate”	has the meaning ascribed thereto under the GEM Listing Rules
“BCS”	BCS Öko-Garanite GmbH, an EU-accredited inspection and certification body based in Germany to implement the EU Regulation No. 2092/91 “Organic Production of Agricultural Products” on products of organic origin and an Independent Third Party
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to under “Changes in share capital of the Company” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

* For identification purposes only

DEFINITIONS

“Century Sunshine”	Century Sunshine Ecological Technology Limited (世紀陽光生態科技有限公司) (formerly known as Century Sunshine Organic Agriculture Limited 世紀陽光有機農業有限公司), an indirect wholly-owned subsidiary of the Company and an investment holding company of the Group, which is incorporated on 5 July 2002
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Century Sunshine Ecological Technology Holdings Limited (世紀陽光生態科技控股有限公司), an exempted company incorporated on 21 January 2003 in the Cayman Islands with limited liability
“Covenantors”	Alpha Sino, Go Modern Limited, Mr. Chi, Mr Shum, Ms. Zou, Ms. Wong and Professor Zhou
“Director(s)”	the director(s) of the Company
“EU”	European Union
“Fei Li Gao”	三明市肥力高科技有限公司 (Sanming Fei Li Gao Technology Co., Ltd.*), a company established in Fujian province, the PRC and is owned, as to 30% by Ms. Zou and 70% by an Independent Third Party
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM Website”	the website operated by GEM with the domain name of <i>www.hkgem.com</i>
“Go Modern Limited”	Go Modern Limited (可新有限公司), a company incorporated on 3 April 1987 and is owned as to 50% each by Mr. Shum and Ms. Wong and an Initial Management Shareholder

* For identification purposes only

DEFINITIONS

“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the companies that are the present subsidiaries of the Company or any of them
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFOAM”	the International Federation of Organic Agriculture Movements, founded in 1972, which is an international non-governmental organization which formulates organic food standards and promotes the certification of organic food
“Independent Third Party(ies)”	a person(s) or company(ies) who/which is/are independent of the Directors, chief executive, Initial Management Shareholders, Significant Shareholders and the substantial shareholders of the Company or their respective associates
“Initial Management Shareholder(s)”	the initial management shareholder(s) (as such term is defined under the GEM Listing Rules) of the Company as described in the section headed “Initial Management Shareholders, Significant Shareholders and the substantial shareholders of the Company” in this prospectus
“Jia Hui”	福州嘉惠經貿有限公司 (Fuzhou Jia Hui Enterprise Co., Ltd.*), a company established in Fujian province in the PRC and is owned as to 45% by Ms. Chi, the elder sister of Mr. Chi, and 55% by Ms. Huang Zong Mei (黃宗梅), an Independent Third Party
“Joint Lead Managers”	the joint lead managers of the Share Offer, being Watterson Asia and Partners Capital
“Latest Practicable Date”	31 January 2004, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus

* For identification purposes only

DEFINITIONS

“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange responsible for GEM matters
“Listing Date”	the date on which dealings in the Shares first commence on GEM
“Main Board”	the stock exchange (excluding the option market) operated by Stock Exchange which independent from and operated in parallel with GEM
“Mr. Chi”	Mr. Chi Wen Fu, the founder of the Group, the Chairman of the Board and the Chief Executive Officer of the Group and an Initial Management Shareholder
“Mr. Shum”	Mr. Shum Sai Chit, an executive Director and an Initial Management Shareholder
“Ms. Chi”	Ms. Chi Bifen, the sister of Mr. Chi
“Ms. Wong”	Ms. Wong May Yuk, a non-executive Director and an Initial Management Shareholder
“Ms. Zou”	Ms. Zou Li, a non-executive Director and an Initial Management Shareholder
“New Bright”	New Bright Group Limited, a direct wholly-owned subsidiary of the Company and a member of the Group, which is incorporated on 12 December 2002 under the laws of BVI with limited liability
“New Issue”	the issue of the New Shares by the Company under the Share Offer
“New Shares”	the 80,000,000 new Shares to be issued under the Public Offer and the Placing
“OFDC”	國家環境保護總局有機食品發展中心 (the Organic Food Development Center of China), an Independent Third Party, which is established in 1994, and is responsible for developing organic food standards in relation to the production, certification and export of organic food in the PRC

DEFINITIONS

“Offer for Sale”	the offer for sale of the Sale Shares by the Vendor for cash at the Offer Price under the Placing
“Offer Price”	the price of HK\$0.55 for each Offer Share (excluding 1% brokerage fee, 0.005% transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee payable thereon) at which the Offer Shares are to be issued or sold pursuant to the Share Offer
“Offer Shares”	the Placing Shares and the Public Offer Shares
“OTRDC”	中國農業科學院茶葉研究所有機茶葉研究與發展中心 (Organic Tea Research and Development Centre of the Tea Research Institute of the Chinese Academy of Agricultural Sciences), an Independent Third Party
“Partners Capital”	Partners Capital International Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO and a Joint Lead Manager
“Placing”	the conditional placing of the Placing Shares for cash at the Offer Price with professional, institutional and other investors on and subject to the terms and conditions stated in this prospectus
“Placing Shares”	a total of 86,400,000 Shares which consists of 70,400,000 New Shares and the Sale Shares (subject to reallocation between the Public Offer Shares and the Placing Shares as described in the section headed “Structure and conditions of the Share Offer” in this prospectus) being offered for subscription or purchase pursuant to the Placing
“Placing Underwriters”	Watterson Asia and Partners Capital
“PRC”	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, does not include Hong Kong, Taiwan and The Macau Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Professor Zhou”	Professor Zhou Xing Dun, an executive Director and the Chief Technology Officer of the Group
“Public Offer”	the offer of the Public Offer Shares to members of the public in Hong Kong by way of an offer for subscription at the Offer Price, payable in full on application, on and subject to the terms and conditions stated in this prospectus and the Application Forms
“Public Offer Shares”	9,600,000 New Shares initially being offered for subscription in Hong Kong pursuant to the Public Offer (subject to reallocation between the Public Offer Shares and the Placing Shares as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Public Offer Underwriters”	Watterson Asia, Partners Capital, CSC Securities (HK) Limited, First Shanghai Securities Limited, Tai Fook Securities Company Limited, Kingston Securities Limited, South China Securities Limited, G.K. Goh Securities (H.K.) Limited, Kingsway Financial Services Group Limited and Core Pacific – Yamaichi International (H.K.) Limited
“Relevant Period”	a period of 12 months from the Listing Date
“Reorganisation”	the corporate reorganisation of the Group in preparation for the listing of the Shares on GEM, particulars of which are set forth under “Group reorganisation” in Appendix V to this prospectus
“Sale Shares”	16,000,000 Shares being offered for sale by the Vendor for cash at the Offer Price under the Placing
“Sanming Century”	三明市世紀陽光農業科技開發有限公司 (Sanming Municipality Century Sunshine Agricultural Technological Development Company Limited*), an indirect subsidiary of the Company and a limited liability company established on 16 June 2000 in the PRC, which is currently owned as to 80% by Youxi Greenland and 20% by Mr. Chi Wen Qiang (池文強), a younger brother of Mr. Chi
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

* For identification purposes only

DEFINITIONS

“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Share Offer”	the Placing and the Public Offer
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 31 January 2004, the principal terms and conditions of which are summarised under “Share Option Scheme” in Appendix V to this prospectus
“Significant Shareholder”	the significant shareholder(s) (as such term is defined under the GEM Listing Rules) of the Company as described in the section headed “Initial Management Shareholders, Significant Shareholders and substantial shareholders of the Company” of this prospectus
“Sponsor”	CSC Asia Limited, a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in Schedule 5 to the SFO and a qualified sponsor for GEM
“Sponsor’s Agreement”	the sponsor’s agreement dated 4 January 2004 and entered into between the Sponsor and the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Periods”	each of the two financial years ended 31 December 2002 and the eight months ended 31 August 2003
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreement”	the conditional underwriting agreement relating to the Share Offer dated 4 February 2004 and entered into between the Company, Alpha Sino, Go Modern Limited, the Directors, the Initial Management Shareholders, the Sponsor, the Joint Lead Managers and all other Underwriters, particulars of which are set forth in the section headed “Underwriting arrangements for the Share Offer” in this prospectus

DEFINITIONS

“USA”	the United States of America
“Watterson Asia”	Watterson Asia Limited, a corporation licensed to carry on the type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in Schedule 5 to the SFO, the financial adviser to the Company and the bookrunner of the Share Offer and a Joint Lead Manager
“Youxi Factory”	the Group’s production base located at Youxi (尤溪), Fujian province, the PRC which has an annual production capacity of approximately 3,000 tonnes of microbial compound fertilizer products and approximately 20,000 tonnes of organic fertilizer products and organic compound fertilizer products
“Youxi Greenland”	福建省尤溪縣綠地生物製品有限公司 (Green Land Bio-Products Co. Ltd.*), Youxi County, Fujian Province), an indirect wholly-owned subsidiary and a limited liability company established on 17 January 2000 in the PRC and was converted into a wholly foreign-owned enterprise in October 2002 in the PRC and an indirect subsidiary of the Company
“HK\$” or “HK dollars” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“RMB” or “renminbi”	Renminbi yuan, the lawful currency of the PRC
“US\$” or “US dollars”	US dollars, the lawful currency of the USA
“%”	per cent.

Unless the context otherwise requires, translations of renminbi into HK dollars are made, for illustration purpose only, at the rate of HK\$1 = RMB1.06.

* For identification purposes only

GLOSSARY OF TECHNICAL TERMS

This glossary contains an explanation of terms used in this prospectus which may or may not correspond to standard industry definition.

“biotechnology”	the field of science and engineering relating to the adaptation of living organisms or biological processes to industrial and commercial applicants
“CAGR”	compound annual growth rate
“EU Regulation No. 2092/91”	the Council Regulation on Organic Production of Agricultural Products and Indications Referring Thereto on Agricultural Products and Foodstuffs, which was published on 24 June 1991 in the Official Journal of the EU and became legally binding on 1 January 1993. This regulation defines, to all member states of the EU, the requirements for a product to be traded in reference to Organic Agriculture. The EU-regulation also contains regulations on importing organic products from the so called ‘Third Countries’ to the EU
“fermentation”	the chemical decomposition of a substance, usually a carbohydrate, due to the action of enzymes produced by bacteria, yeasts or molds. Fermentation usually occurs in an oxygen-free environment and involves the conversion of starch or sugar into ethyl alcohol
“hectares”	measure of area in the metric system, equal to 100 ares or 10,000 square metres (2.471 acres)
“inorganic fertilizer”	any inorganic material of wholly or partially synthetic origin that is added to the soil to sustain plant growth
“microbe”	a microscopic organism
“microbial compound fertilizer”	a type of fertilizer which contains phosphorus-liberating, potassium-liberating, and nitrogen-fixing bacteria or any other two or more types of bacteria, through the biological activities of which provide nutrients to the plants when added to the soil
“organic fertilizer”	carbon material of natural origin (primarily comes from plants and animals) that is added to the soil to provide nutrients to plants growth

GLOSSARY OF TECHNICAL TERMS

“organic compound fertilizer”	fertilizers that are made by chemical or physical process and contain at least two of three types of nutrients, being phosphorus, potassium and nitrogen
“pH level”	power of hydrogen. pH is the measurement of hydrogen ions. pH is measured on a scale from 0–14, the neutral value is 7, while values below are more acidic and values above 7 more basic
“tonne”	metric ton, 1,000 kilograms

RISK FACTORS

RISK RELATING TO THE BUSINESS OF THE GROUP

Risk of infringement of the Group's intellectual property rights in the PRC

All the Group's fertilizer products are sold under the "LU DI" (綠滴) trademark which is registered as a trade mark in the PRC. In addition, the Group's organic fertilizer processor for the process of animal waste, being part of the core production process of the Group, is patented in the PRC. In addition, the "世紀陽光Century Shine" trademark is also registered in the PRC. Nevertheless, there can be no assurance that the existing legal protection in the PRC will effectively prevent unauthorised use of the Group's "LU DI" (綠滴) and "世紀陽光Century Shine" trademark or the misappropriation by third parties of the technology associated with the Group's patented organic fertilizer processor. The Group is currently operating in the PRC where effective copyright, trade mark and trade secret protection may not be available. Policing unauthorised use of the trademark and the proprietary technology of the Group may be difficult, costly and ineffective, and there can be no assurance that any steps taken by the Group will effectively prevent any such misappropriation or infringement from occurring. Unauthorised use of the Group's trademark and patented technology could adversely affect the performance of the Group and its business reputation. Failure to review the Group's existing trade marks could also adversely affect the performance of the Group and its business reputation.

In addition, as of the Latest Practicable Date, the Group has filed six applications for patent in relation to the various production methods and technologies currently employed by the Group. These applications are still pending. Should the Group fails in its application for securing such patents, the Group may encounter a risk that the Group may not be able to prevent the unauthorized use of the Group's technologies and methods as set out in the above said applications. In this event, the unauthorized use of the Group's production method and technologies could adversely affect the performance of the Group.

Reliance on subcontractors

The Group relied on two subcontractors to produce all of its organic compound fertilizer products during the Track Record Periods. For the year ended 31 December 2001, the Group engaged Fujian Minhou Yangxi Chemical Factory (福建省閩侯洋溪化工廠), an Independent Third Party in Fujian province, the PRC, to produce approximately 500 tonnes of organic compound fertilizer products. Products produced by the Minhou plant accounted for approximately 6.7% of the Group's total turnover. For the financial year ended 31 December 2002, the Group engaged Fujian Minhou Yangxi Chemical Factory and Luoyuan Kaiyuan Bio-technology Engineering Co Ltd (羅源縣開源生物工程有限公), an Independent Third Party in Fujian province, the PRC, to produce approximately 1,000 tonnes and 6,500 tonnes respectively of organic compound fertilizer products. Products produced by the Minhou plant and Luoyuan plant accounted for approximately 3% and 18% respectively of the Group's total turnover. For the eight months ended 31 August 2003, the Group engaged Luoyuan Kaiyuan Bio-technology Engineering Co Ltd to produce approximately 5,300 tonnes of organic compound fertilizer products. Products produced by the Luoyuan plant accounted for

RISK FACTORS

approximately 25% of the Group's total turnover. The subcontracting arrangement with the Minhou plant was expired in November 2002 and was not renewed. The subcontracting arrangement with the Luoyuan plant will expire in December 2004. In the event that there is any disruption in the production of its subcontractors, the Group's performance could be adversely affected.

Reliance on raw material suppliers

The Group's production of fertilizer products relies heavily on raw materials. The Group currently uses five types of raw materials in the production of fertilizer products: (a) livestock wastes such as cattle wastes and pig wastes; (b) agricultural wastes such as grain bran; (c) food production wastes such as tea seeds residuals; (d) processing material compound comprising urea, nutrients compound, bacteria and other items; and (e) packaging materials. During the Track Record Periods, the Group sourced most of its livestock wastes from two major suppliers. The Group sourced all the agricultural wastes and food production wastes from one supplier. The Group sourced most of its processing material compound and packaging materials from Jia Hui, the Group's largest supplier during the two financial years ended 31 December 2002. For each of the Track Record Periods, the Group's largest supplier accounted for 39%, 66% and 36% respectively of the Group's total purchases of raw materials while the Group's five largest suppliers accounted for 99%, 99% and 98% respectively of the Group's total purchases of raw materials. The Group will source all of its raw materials from suppliers who are Independent Third Parties after the Shares are listed on GEM in order to avoid connected transactions. The Directors believe that the raw materials used by the Group have abundant supply in Fujian province, the PRC. In the event that there is any disruption to the supply of such raw materials, the Group's production of fertilizer products could be adversely affected.

Reliance on tea industry in the PRC

For each of the Track Record Periods, sales of the Group's fertilizer products to tea plantation (including sales conducted through the Group's distributors and to its direct customers) accounted for approximately 50%, 53% and 56% of the Group's total turnover respectively. Adverse weather conditions, such as drought or floods, would affect tea harvest that could in turn adversely affect the use of the fertilizers in the following planting season. In such event, the Group's performance could be adversely affected.

Reliance on distributors for the sales and distribution of the products of the Group

Currently, a substantial portion of the Group's sales are conducted through distributors, who are Independent Third Parties. As at the Latest Practicable Date, the Group had 22 distributors in Fujian province, the PRC. Each of the Track Record Periods, approximately 11%, 61% and 70% of the Group's total sales were made through distributors respectively. Any substantial decrease in the businesses of the Group's existing distributors or disruption of the Group's business relationships with these distributors could have a material adverse impact on the Group's operating and financial results.

RISK FACTORS

Reliance on key management

The Group's operations depend on the Directors and a number of senior executives who are directly involved in the Group's management and research and development of the Group's products. Particulars of this key management staff are set forth in the section headed "Directors, senior management and staff of the Group" in the prospectus. The future success of the Group is, to a large extent, depending on the performance of this management team and their continued service to the Group. Should any one of them leaves the Group and the Group cannot find replacement within a short period, the operations of the Group could be adversely affected.

Reliance on bank borrowings

During the Track Record Periods, the Group borrowed moneys from the banks to fund its operation. As at close of business on 31 December 2003, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of the prospectus, the Group had outstanding bank borrowings in the aggregated amount of RMB7,800,000 comprising three bank loans:—

- (i) RMB1,000,000 was borrowed from Youxi Agriculture Credit Union (尤溪縣農村信用合作社聯合社) with an annual interest rate of 6.59% and was repayable before November 2003. The Group subsequently repaid RMB200,000 of the loan principal in October 2003 and extended the balance of RMB800,000 for another six months which is repayable before April 2004 with an annual interest rate of 6.84%. This bank loan is secured by a corporate guarantee provided by Jia Hui;
- (ii) RMB2,000,000 was borrowed from Youxi Agriculture Credit Union with an annual interest rate of 7.2% and is repayable before March 2004. This bank loan was secured by a corporate guarantee provided by Jia Hui; and
- (iii) RMB5,000,000 was borrowed from China Agricultural Bank Sanming Branch (中國農業銀行三明市分行) with an annual interest rate of 6.372% and is repayable before March 2004. This bank loan is secured by a corporate guarantee provided by Fujian Sanming Shuang Lun Chemical Machinery Co., Limited (福建省三明雙輪化工機械有限公司), an Independent Third Party.

There is no security over the assets of the Group being pledged to the lending banks in respect of the above bank loans. Neither there is any security over the assets of the Group being granted to Jia Hui or Fujian Sanming Shuang Lun Chemical Machinery Co., Ltd in respect of the corporate guarantees provided by them.

RISK FACTORS

The above bank borrowings represented approximately 11% of the Company's adjusted net tangible assets following the listing of the Shares on GEM. As at 31 December 2001 and 2002 and 31 August 2003, the Group's gearing ratio (total debt to net asset value) was approximately 148%, 20% and 37% respectively. As at 31 December 2001 and 2002 and 31 August 2003, the Group's net debt to net asset value ratio was approximately 148%, 9% and (4%) respectively. The Group plans to settle the bank borrowings by its internal resources in the future. If the Group is unable to generate sufficient cashflows from operation or replace these loans with other loan facilities or financing arrangements, the existing operations, performance and prospects of the Group as well as its ability to implement its business plan may be adversely affected.

Customers' credit risk

The Group's policy is to encourage customers to pay cash on delivery for their purchase or grants a credit period of up to 90 days. For each of the Track Record Periods, cash sales accounted for approximately 68%, 51% and 30% of the Group's total sales, respectively. As at 31 December 2001 and 2002 and 31 August 2003, the Group's trade receivables accounted for approximately 27%, 42% and 26% of the Group's total current assets. The Group has not experienced any default by its appointed distributors or customers in settlement of their purchases to date. However, as the Group's business expands, there may be a need to provide additional credit sales to its distributors or customers, leading to an anticipated increase in the credit risk. The Group's financial position could be adversely affected should the Group experience any material difficulty in collecting payments from its customers (including its distributors).

Product liability

Any defects in the fertilizer products provided by the Group could result in economic loss, adverse customer reaction against the Group, negative publicity, additional expenditure to rectify the problems and/or legal proceedings against the Group. Any litigation relating to such liability may be expensive and time-consuming, and successful claims against the Group could result in substantial monetary liability or damage to the business reputation of the Group and disruption to the business operations of the Group. However, the Group has not maintained any insurance policy against losses that may arise from such claim.

RISK RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES

Adverse weather condition affecting crop harvests

Adverse weather conditions, such as drought or floods, could affect crop harvests that could cause reduction in crop sales and income to farmers, which in turn could adversely affect the prices and the level of demand for fertilizer products in the following planting season. In such event, the Group's performance could be adversely affected.

RISK FACTORS

Increasing competition

As at 31 March 2003, there were eight organic fertilizer producers and five organic compound fertilizer producers registered with the Agriculture Bureau of Fujian province, the PRC. With the increase in consumers' awareness of the advantages of organic food products, the demand for organic fertilizer products is expected to increase. Such increase is expected to result in lead to increasing competition from both existing fertilizer producers and new entrants. These competitors may have more capital, better research and development resources and support, and more comprehensive sales and distribution network than the Group. If the Group is not able to compete with its competitors, either in product quality, after-sales services or product prices, the performance of the Group could be adversely affected.

Product substitution

Despite the inherent advantages of using organic fertilizers over inorganic fertilizers in agriculture, new types of fertilizers or other substituted products are being developed as, researchers are constantly seeking ways to make plants and crops stronger, more resistant to diseases and adverse weather condition and require less fertilizers. Failure of the Group to respond rapidly to all these technological changes and new product developments could have a material adverse impact on the performance of the Group.

Changes in regulation governing the use of organic fertilizer products in the PRC

Over the past few decades, inorganic fertilizers have been widely used within the PRC agricultural industry. Such usage had caused general arable soil condition to deteriorate, disappearance of grasslands and pollution of ponds and lakes. In addition, widespread inorganic fertilizer usage leads to the weakening of the crops' immunity from diseases and harmful bacteria, leading to inordinate usage of chemical pesticides by farmers. Witnessing the adverse impact to biological environment within the country due to the inordinate use of chemical fertilizers and chemical pesticides, the State Council of the PRC has launched “沃土工程” (the “Rich Soil Project”) in the PRC since 1998, with the objective of increasing the usage of organic fertilizers. In the event that there is any change in the above mentioned policy which promotes the use of organic fertilizers in general, the Group's performance could be affected.

POLITICAL AND ECONOMIC RISKS

The Group operates primarily in the PRC with production, sales as well as research and development in that country. The political and economic stability of the PRC will affect the operations of the Group directly.

RISK FACTORS

The PRC and renminbi

Since 1978, the economic system in the PRC has been under reform, transforming its planned economy to a market economy with socialist characteristics. Such reforms have resulted in significant economic growth and social progress. As the reforms are unprecedented or experimental and are expected to be refined and improved upon, political and social factors can also lead to further readjustment of the reform measures. This refinement and readjustment process may not always have a positive effect on the operations of the Group. In addition, the introduction of measures to control inflation, changes in interest rates and the bases for taxation and the imposition of additional restrictions on currency conversion and remittances abroad by the PRC government may also have a negative impact on the Group's business.

The PRC government imposes control over the convertibility of an renminbi into foreign currencies. With effect from 1 January 1994, the PRC government implanted an unified floating exchange rate system based on market supply and demand. Under the new system, the People's Bank of China ("PBOC") publishes a renminbi 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 their own rates, which are within the floating range specified by PBOC, to enter into foreign exchange sales and purchase transactions with customers. Although new regulations have provided for greater liquidity, renminbi is still not a freely convertible currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require the prior approval of the State Administration for Foreign Exchange of PRC (中華人民共和國國家外匯管理局) ("SAFE"). These limitations could affect the Company's ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures.

Under the existing foreign exchange regulations in the PRC, following completion of the New Issue, Youxi Greenland and Sanming Century may undertake current account foreign exchange transactions, including the payment of dividends, without prior approval from the SAFE by producing relevant documents evidencing such transactions, provided that they are processed through PRC banks licenced to engage in foreign exchange transactions.

The value of the renminbi may be influenced by factors such as changes in the PRC government's policies, the PRC's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of renminbi to US dollars has generally been stable, and the Renminbi has appreciated slightly against the US dollars. However, there can be no assurance that the value of the renminbi will continue to remain stable against the US dollars or any other foreign currency. The value of the Group's investments in the PRC may be adversely affected by a devaluation of the renminbi.

RISK FACTORS

HK dollars

The Group's accounts are denominated in Renminbi and its sales and expenses are primarily denominated in Renminbi. The US dollars to HK dollars exchange rate has remained stable under a currency board system since 1983 with US\$1 to HK\$7.8 link. The HK dollars were subject to currency speculation in 1998. There can be no assurance that Hong Kong's economic condition will not change or that the currency link of the HK dollars to US dollars will be maintained at all times in the future. A deterioration of the Hong Kong's economy or the discontinuation of the currency link could have a significant adverse effect on the Hong Kong stock and financial markets which would have a knock-on effect on the Group's ability to raise funds in Hong Kong.

PRC legal and other regulatory considerations

Although many laws and regulations governing economic matters have been promulgated and supplemented in the PRC since 1979, the PRC legal system is still not mature when compared with the legal systems of other developed western countries. The interpretation of PRC laws may be influenced by policy changes reflecting domestic political and social changes. In addition, it may also be difficult to enforce judgments in the PRC. Many laws and regulations in the PRC are promulgated in broad principles and the PRC government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. The general effect of legislation since 1982, when the National People's Congress amended the constitution to authorise foreign investment, has been to enhance significantly the protection afforded to foreign investment enterprises in the PRC. However, there can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon the Company.

PRC enterprise income tax

Youxi Greenland's fertilizer products are produced from raw materials such as agriculture and livestock wastes. Pursuant to the Notice of Certain Preferential Treatment Policies in Relation to Enterprise Income Tax (Cai Shui Zi【1994】001) (《關於企業所得稅若干優惠政策的通知》財稅字【1994】001號文) (the "Preferential Treatment Policies") published by the State Taxation Bureau and the Ministry of Finance of the PRC, Youxi Greenland is entitled to the exemption of PRC enterprise income tax of 33%. According to a written approval from Youxi Local Taxation Bureau, Youxi Greenland is exempted from enterprise income tax for the year ended 31 December 2002. No PRC enterprise income tax was provided for the year ended 31 December 2001 as Youxi Greenland had no taxable profit, after offsetting tax loss resulted from prior year.

RISK FACTORS

Youxi Greenland became a wholly foreign-owned enterprises in the PRC in October 2002. Under the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (the “PRC Income Tax Law”) which came into effect on 1 July 1991, wholly foreign-owned enterprises in the PRC are subject to a 30% national income tax and a 3% local income tax. Wholly foreign-owned enterprises in the PRC engaged in the production having a period of operation of not less than 10 years are exempted from tax for the first two profit-making years and a 50% relief of the income tax payable for the three years thereafter. However, under the Implementation Rules of the PRC Income Tax Law, these enterprises will be entitled to such preferential tax treatment only if an application has been made to, and approved by, the relevant PRC local tax authorities. Youxi Greenland’s application for preferential tax treatment under the PRC Income Tax Law was approved by Fujian Youxi State Taxation Bureau (福建省尤溪縣國家稅務局) on 26 February, 2003. Youxi Greenland is entitled to exemption of the PRC enterprise income tax for the two years ending 31 December 2004 and will be subject to a preferential income tax rate of 18% for the three years ending 31 December 2007. Such preferential treatment is not subject to annual review.

The Group is exposed to changes in the taxation system which may result from, among other factors, changes in the policies adopted by the PRC government. There is no assurance that such changes will not adversely affect the financial performance and profitability of the Group.

RISKS RELATING TO THE SHARES

An active trading market for the Shares may not develop and market price of the Shares may be volatile

Prior to the Share Offer, there has been no public market for any of the Shares. The price for the Shares under the Share Offer was determined by the Directors and the Joint Lead Managers. This price may not be indicative of the Price at which Shares will be traded upon their initial listing on GEM. There can be no assurance that an active trading market for the Shares will develop, or if it does develop, that it will be sustained following the completion of the Share Offer, or that the market price of the Shares will not decline below the Offer Price after the Share Offer.

The market price of the Shares may also be subject to significant volatility in response to, amongst other factors:–

- development of the agricultural industry, particularly the tea industry, in the PRC;
- weather conditions that may affect the agricultural industry in the PRC;
- competition the Group may faces in the future;
- roll out of the Group’s business plan;

RISK FACTORS

- investors' perception of the Group's business and future prospects;
- variations of the Group's quarterly results;
- announcement by the Group of any significant acquisition, strategic partnership, joint venture or capital commitment that may affect the Group's results going forward;
- general performance of the Hong Kong securities market;
- market liquidity of the Shares; and
- litigation by or against the Group.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have significantly affected the market prices of the listed shares. As a result, investors in the Shares may experience a decrease in the value of the Shares regardless of its operating performance or prospects.

Shareholders' interests may be diluted

The Group may need to raise additional funds in the future to finance the expansion of or new developments relating to its existing operations or new acquisitions. If additional funds are raised through the issue of new equity or equity-linked securities of the Group other than through a rights issue with entitlements to existing Shareholders, the percentage of ownership of the existing Shareholders may be reduced, and the existing Shareholders may experience dilution of their Shareholdings as such securities may have rights, preferences and privileges senior to those of the then Shares in issue.

The Group has in place the Share Option Scheme under which options may be granted to eligible participants after the Listing Date. If these share options are granted and exercised in full, the Company will be required to issue 32,000,000 Shares, representing 10% of the issued Shares immediately upon completion of the Share Offer and the Capitalization Issue. This would result in the reduction of the percentage ownership of the Shareholders and may result in dilution of assets and earnings of the Company for each Share.

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

For the purpose of the listing of the Shares on GEM, the Group has sought a number of waivers from the Stock Exchange and the Securities and Futures Commission in relation to certain requirements under the GEM Listing Rules and the Companies Ordinance. Particulars of these waivers are described below:–

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

During each of the two financial years ended 31 December 2002 and the eight months ended 31 August 2003, Youxi Greenland had, in its ordinary and usual course of business and on normal commercial terms, sold to Sanming Century certain of the Group's fertilizer products at the same prices as those to the Group's appointed distributors who are Independent Third Parties. Such sales amounted to RMB2,698,000, RMB5,319,000 and RMB1,923,000, representing approximately 46%, 12% and 8% of the total turnover of the Group, respectively. Sanming Century is not the end-users of these products, and they were subsequently sold by Sanming Century directly to customers of the Group.

Sanming Century was established under the laws of the PRC as a limited liability company and is currently owned as to 80% by Youxi Greenland and 20% by Mr. Chi Wen Qiang (池文強), who is a brother of Mr. Chi. Mr. Chi Wen Qiang is also the sole director of Sanming Century. Sanming Century is principally engaged in the research and development of organic fertilizer production technology and promotion and distribution of organic fertilizer products in Fujian province and in particular, Sanming district, Fujian province, the PRC. Sanming Century only distributes the Group's fertilizer products to its customers developed during the Track Record Periods when it conducted field-testing for new product development for Youxi Greenland. Sanming Century will not actively expand its customer base in Sanming district, nor will it distribute the Group's fertilizer products outside the Sanming district. By virtue of Rule 20.10(4) of the GEM Listing Rules, Sanming Century is an associate of Mr. Chi, who is a connected person (within the meaning as defined under the GEM Listing Rules) of the Company. Sanming Century is therefore a connected person (within the meaning as defined under the GEM Listing Rules) and the sales of fertilizer products by Youxi Greenland to Sanming Century will constitute connected transactions for the Company under the GEM Listing Rules upon the listing of the Shares on GEM (collectively, the "Connected Transactions"). For each of the Track Record Periods, Sanming Century's net profit/(loss) amounted to approximately RMB2,519,000, (RMB1,144,000) and RMB109,000, respectively. The transactions between Sanming Century and Youxi Greenland were eliminated upon combination of the Group's financial statements.

The Connected Transactions are expected to continue following the listing of the Shares on GEM. For such purpose, Youxi Greenland and Sanming Century entered into a fertilizer sales agreement (the "Fertilizer Sales Agreement") on 31 January 2004 pursuant to which Youxi Greenland agrees to supply Sanming Century the Group's fertilizer products for a term of three years commencing from the Listing Date. The fees payable by Sanming Century for Youxi Greenland's fertilizer products shall be determined on a case by case basis provided

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

that the fees chargeable by Youxi Greenland for its products shall not be more favourable than that Youxi Greenland would charge other Independent Third Parties for the same or similar products.

The Directors anticipate that the maximum annual amount of sales by Youxi Greenland of its fertilizer products to Sanming Century under the Fertilizer Sales Agreement will not exceed RMB5,100,000, RMB5,800,000 and RMB6,600,000 for each of the three financial years ending 31 December 2005, respectively. These caps amounts are determined on the basis of the estimated amount of purchase orders expected to be placed by Sanming Century for each of the three financial years ending 31 December 2005, as indicated in the Fertilizer Sales Agreement, of not more than RMB5,100,000, RMB5,800,000 and RMB6,600,000, respectively. The estimated annual cap of the amount of purchase by Sanming Century from Youxi Greenland for the financial year ended 31 December 2003 is based on (a) purchase by Sanming Century for the eight months ended 31 August 2003 of approximately RMB1,923,000; and (b) purchase by Sanming Century for the four months ended 31 December 2003 under the management account of approximately RMB2,280,000. The proposed annual caps for the two financial years ending 31 December 2004 and 2005 are based on an estimated annual growth rate of approximately 14%. The Directors consider that such estimate of growth rate is fair and reasonable given the Group's rapid growth rate in turnover of 620% in 2002 and the forecast growth rate of 23% in 2003.

As the annual consideration of the Connected Transactions is expected to exceed HK\$1,000,000 but less than HK\$10,000,000, they will therefore pursuant to Rule 20.24 of the GEM Listing Rules be subject to the reporting and announcement requirements set out in Rules 20.34 and 20.35 of the GEM Listing Rules.

The Directors (including independent non-executive Directors) are of the view that the Connected Transactions have been or will be entered into in the Group's ordinary course of business on normal commercial terms or on terms that are fair and reasonable so far as the Shareholders taken as a whole are concerned and are in the interests of the Group. The Sponsor, having taken into consideration the view of the Directors and based on the documents and information provided by the Group, is of the opinion that the Connected Transactions were conducted on a commercial terms comparable to those applicable to Independent Third Parties and in ordinary course of business and were fair and reasonable so far as the interests of the independent Shareholders are concerned.

Given that the Connected Transactions will be entered into between Youxi Greenland and Sanming Century from time to time in the future on a regular basis, the Directors consider that it will not be practical to make disclosure each time immediately after any of the Connected Transactions has taken place.

**WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES
AND THE COMPANIES ORDINANCE**

In light of the above, the Company has applied for, and has been granted by the Stock Exchange a waiver in respect of the Connected Transactions for a period of three financial years expiring on 31 December 2005 from strict compliance with the independent Shareholders' approval and/or disclosure requirements related to connected transactions under Rules 20.35 and 20.36 of the GEM Listing Rules subject to the following conditions:-

- (a) the Connected Transactions are and will be entered into between Youxi Greenland and Sanming Century:-
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms (to the extent that these are comparable transactions) or, where there are no sufficient comparable transaction to judge whether they are on normal commercial terms, on terms no less favourable to Youxi Greenland than those available to or from (as appropriate) Independent Third Party;
 - (iii) in accordance with the Fertilizer Sales Agreement; and
 - (iv) at prices or on terms which are fair and reasonable so far as the independent Shareholders are concerned;
- (b) in any financial year the respective value of amount receivable or payable (as the case may be) in respect of the Connected Transactions does not exceed the respective caps set out as follows:-

	Suggested annual cap for the financial year ended/ending 31 December		
	2003	2004	2005
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Transactions under the Fertilizer Sales Agreement	5,100,000	5,800,000	6,600,000

- (c) details of the Connected Transactions shall be disclosed in the Company's annual report and accounts for the relevant years as described in Rules 20.34(1) to (5) of the GEM Listing Rules, i.e., the date or period of the transactions, the parties thereto and a description of their connection, a brief description of the transactions and the purpose of the transactions, the total consideration and the terms, and the nature and extent of the interest of the connected persons in the transactions;

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

- (d) the independent non-executive Directors shall review the Connected Transactions annually and confirm in the Company's annual report and accounts for the year in question that the Connected Transactions have been entered into in the manner as stated in paragraphs (a) and (b) above;
- (e) the Company's auditors shall review annually the Connected Transactions and provide a letter to the Board (with a copy to the Listing Division of the Stock Exchange) confirming that the Connected Transactions:–
 - (i) have received the approval of the Board;
 - (ii) have been entered into in accordance with the terms of the Fertilizer Sales Agreement;
 - (iii) are in accordance with the pricing policies of the Group, if any; and
 - (iv) have not exceeded their respective caps as mentioned in paragraph (b) above;
- (f) the Company shall promptly notify the Stock Exchange if it knows or has reason(s) to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (d) and/or (e) above, respectively;
- (g) in the event that the annual aggregate consideration of any of the Connected Transactions is to be greater than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Group in any year, the transactions (within the meaning of the non-exempt continuing connected transaction under the GEM Listing Rules) and the annual value are subject to review and re-approval by independent Shareholders at the annual general meeting of the Company following the initial approval and at each subsequent annual general meeting so long as the relevant non-exempt continuing connected transactions continue. The independent non-executive Directors will be required to opine in the annual report of the Company as to whether or not the Company should continue with the arrangement(s) for the relevant non-exempt continuing connected transactions(s) as required under Rule 20.30 of the GEM Listing Rules; and
- (h) the Company shall provide to the Stock Exchange an undertaking to the effect that, for as long as the Shares are listed on GEM, it will provide the Company's auditors with full access to its relevant records for the purpose of the auditor's review of the transactions.

Should the Connected Transactions continue after 31 December 2005, the Group will have to re-comply strictly with Chapter 20 of the GEM Listing Rules.

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

ACCOUNTANTS' REPORT FOR THE TWO FINANCIAL YEARS PRECEDING THE DATE OF THIS PROSPECTUS

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Group during the three preceding years including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Group for three financial years immediately preceding the issue of the prospectus.

Pursuant to section 5(3) of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (L.N. 76 of 2001), all references to “3 preceding years”, “3 financial years” and “3 years” in paragraph 27 and 31 of the Third Schedule of the Companies Ordinance are substituted by a reference to “2 preceding years”, “2 financial years” and “2 years”, respectively, for a prospectus issued in relation to an application for listing of securities on GEM.

Pursuant to Rule 7.03(1) and 11.10 of the GEM Listing Rules, a new applicant is required to include in the prospectus its financial results covering at least two financial years immediately preceding the issue of the prospectus.

The accountants' report for each of the two financial years ended 31 December 2002 and the eight months ended 31 August 2003 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued shortly after 31 December 2003, the accountants' report has not been prepared for the full financial year ended 31 December 2003 as it would be unduly burdensome for the Group to do so.

In the circumstances, an application has been made to the Securities and Futures Commission (“SFC”) for a Certificate of Exemption from strict compliance with paragraph 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2003 in the prospectus and a Certificate of Exemption has been granted by the SFC on the ground that full compliance with paragraph 27 and 31 of the Third Schedule of the Companies Ordinance would be unduly burdensome.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2003 in the prospectus and waiver has been granted by the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31 August 2003 and they are not aware of any event which would materially affect the information shown in the accountants' report of the Group, the text of which is set forth in Appendix I to this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571 Subsidiary Legislation V) of the Laws of Hong Kong and the GEM Listing Rules for the purpose of giving information on the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:–

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

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

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Share Offer. The Share Offer comprises initially 86,400,000 Placing Shares and 9,600,000 Public Offer Shares. Listing of the Shares on GEM is sponsored by the Sponsor and the Share Offer is lead managed by the Joint Lead Managers. Subject to the terms of the Underwriting Agreement, the Placing Shares are fully underwritten by the Placing Underwriters and the Public Offer Shares are fully underwritten by the Public Offer Underwriters. Particulars of the Underwriters and the underwriting arrangements are set forth in the section headed “Underwriting arrangements for the Share Offer” in this prospectus.

OFFER SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

No invitation may be made directly or indirectly by or on behalf of the Company or the Vendor to members of the public in the Cayman Islands to subscribe for or acquire any of the Offer Shares.

Each person acquiring the Placing Shares will be required to confirm, or be deemed by its acquisition of the Placing Shares to have confirmed, that he or she or it is aware of the above restrictions on offer of the Offer Shares.

ROLE OF WATTERSON ASIA AS FINANCIAL ADVISER TO THE COMPANY

Watterson Asia is appointed by the Company to act as its financial adviser and the bookrunner of the Share Offer and a Joint Lead Manager. The scope of appointment of Watterson Asia as the financial adviser to the Company is to assist generally the Sponsor in advising the Company and its principal shareholders (a) the procedures and the restructuring steps that need to be implemented for the purpose of the proposed listing; and (b) the business matters relating to promoting the Shares to investors, such as marketing strategy, timing of the Share Offer, types of target investors and the Offer Price. In respect of advising the Company and its principal shareholders on the procedure and the restructuring steps that need to be implemented for the purpose of the proposed listing, Watterson Asia and the Sponsor have a clear delineation of their respective duties: the Sponsor is responsible for advising the Company the shareholding and corporate structures of the Group that satisfy the requirements under the GEM Listing Rules, whilst Watterson Asia, in light of the advice given by the Sponsor, assist the Group and its principal shareholders to undertake and complete the reorganisation steps for the purpose of the proposed listing. Watterson Asia is not responsible for advising the Company on matters in relation to the GEM Listing Rules.

The appointment of Watterson Asia is not made pursuant to the requirements of the GEM Listing Rules and as such the appointment is segregated from the appointment of the Sponsor that is required to be made by the Company under the GEM Listing Rules. The appointment of Watterson Asia does not and will not affect the discharge of duties by the Sponsor pursuant to the requirements under the GEM Listing Rules. Such duties include, among other things, reviewing this prospectus with a view to ensuring that the Directors understand the importance of disclosing all material information to the Shareholders and the market as required by Rule 6.55 of the GEM Listing Rules and dealing with the Stock Exchange on all matters raised by the Stock Exchange in relation to the application for listing the Shares on GEM as required by Rule 6.44 of the GEM Listing Rules. The Sponsor has not relied on the work performed by Watterson Asia.

APPLICATION FOR LISTING OF THE SHARES ON GEM

Application has been made to the Listing Committee for the granting of the approval of the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue and the Share Offer, and the Shares that may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

No part of the share or loan capital of the Company is currently listed or dealt in on the Stock Exchange or any other stock exchange. At present, the Company is not seeking nor proposing to seek listing of or permission to deal in the Shares on the Main Board or any other stock exchange.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing of the Shares on GEM and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in public hands (which term is defined in the GEM Listing Rules).

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the application of the Share Offer or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

HONG KONG BRANCH REGISTER OF MEMBERS

All Shares in issue and to be issued as mentioned in this prospectus will be registered on the Company’s branch register of members to be maintained by its branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. The Company’s principal register of members is maintained by its principal share registrar and transfer office in the Cayman Islands, Bank of Butterfield International (Cayman) Limited of Butterfield House, 68 Fort Street, P.O. Box 75, George Town, Grand Cayman, Cayman Islands. Only Shares registered in the Company’s branch share registrar in Hong Kong may be traded on GEM unless the Stock Exchange has otherwise agreed.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the tax implications of the subscription for or purchase, holding or disposal of, or dealing in, or the exercise of any rights in relation to, the Offer Shares, you should consult a professional adviser.

None of the Company, the Vendor, the Sponsor, the Joint Lead Managers, all other Underwriters, their respective directors, agents and advisers and any other parties involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscription for, or purchase, holding or disposal of, or dealings in, or the exercise of any rights in relation to, the Offer Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

HONG KONG STAMP DUTY

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

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval of the listing of, and permission to deal in, the Shares on GEM and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements that will affect their rights and interests.

CCASS participants should note, however, that in the event the Share Offer is terminated in accordance with "Conditions of the Share Offer" in the section headed "Structure and conditions of the Share Offer" in this prospectus at any time after the deposit of the Offer Shares into CCASS, the Shares will cease to be eligible securities and should be withdrawn from CCASS.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

COMMENCEMENT OF DEALINGS OF THE SHARES ON GEM

Dealings in the Shares on GEM are expected to commence on 17 February 2004. Shares will be traded in board lots of 5,000 Shares.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Executive Directors

Name	Residential address	Nationality
CHI Wen Fu <i>(Chairman and Chief Executive Officer of the Group)</i>	33 Huan He Road Tai Jiang District Fuzhou, Fujian PRC	Chinese
SHUM Sai Chit	Flat D, 15th Floor 52-60A Java Road North Point Hong Kong	Chinese
ZHOU Xing Dun	808, Block 7 Qin Ting College Living Quarter Fuzhou, Fujian PRC	Chinese

Non-executive Directors

ZOU Li	Room 501, Block 16 Yuan Shuai Miao Xin Cun Gulou District Fuzhou, Fujian PRC	Chinese
WONG May Yuk	13th Floor, Man Fai Building 31 Ferry Street Jordan, Kowloon Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Independent non-executive Directors

Name	Residential address	Nationality
SHEN Yi Min	Room 902 Wu Shan Zhi Road 32 Gau Lou District Fuzhou, Fujian PRC	Chinese
CHEUNG Sound Poon	Room E, 3rd Floor 6–8 Osmanthus Road Kowloon Hong Kong	Chinese

PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	CSC Asia Limited Unit 3204–07, 32nd Floor, COSCO Tower Grand Millennium Plaza 183 Queen’s Road Central Hong Kong
Financial adviser to the Company and Bookrunner of the Share Offer	Watterson Asia Limited 5th Floor 8 Queen’s Road Central Hong Kong
Joint Lead Managers	Watterson Asia Limited 5th Floor 8 Queen’s Road Central Hong Kong Partners Capital International Limited Suite 1305 9 Queen’s Road Central Hong Kong
Co-Lead Manager	CSC Securities (HK) Limited Unit 3204–07, 32nd Floor, COSCO Tower Grand Millennium Plaza 183 Queen’s Road Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Managers

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

Tai Fook Securities Company Limited
25th Floor, New World Tower
16–18 Queen’s Road Central
Hong Kong

Kingston Securities Limited
Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

South China Securities Limited
28th Floor, Bank of China Tower
1 Garden Road
Hong Kong

G.K. Goh Securities (H.K.) Limited
Suite 1808, Alexandra House
16–20 Chater Road
Central
Hong Kong

Kingsway Financial Services Group Limited
5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Core Pacific – Yamaichi International (H.K.)
Limited
36th Floor, COSCO Tower
Grand Millennium Plaza
183 Queen’s Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to the Company

As to Hong Kong law:–

So Keung Yip & Sin
17th Floor, Standard Chartered Bank Building
4 Des Voeux Road Central
Hong Kong

As to PRC law:–

Kang Da Law Office
Suite 703, CITIC Building
19 Jianguomenwai Street
Beijing
PRC

As to Cayman Islands law:–

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
George Town
Grand Cayman
British West Indies

**Legal advisers to the Sponsor,
the Joint Lead Managers, Co-Lead
Manager and Managers**

Koo and Partners
in Association with
Paul, Hastings, Janofsky & Walker LLP
21st Floor, Bank of China Tower
One Garden Road
Central
Hong Kong

Auditors and reporting accountants

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Property valuer

Midland Surveyors Limited
Room 2505, World Wide House
19 Des Voeux Road Central
Hong Kong

Receiving banker

Hang Seng Bank Limited
Level 3
83 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	Century Yard, Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business in Hong Kong registered under Part XI of the Companies Ordinance	Room 2807, China Resources Building 26 Harbour Road Wanchai Hong Kong
Company secretary	TANG Ying Kit <i>ACCA, AHKSA</i>
Compliance officer	SHUM Sai Chit
Qualified accountant	TANG Ying Kit <i>ACCA, AHKSA</i>
Members of audit committee of the Board	CHEUNG Sound Poon (<i>Chairman</i>) SHEN Yi Min SHUM Sai Chit
Authorised representatives (for the purpose of the GEM Listing Rules)	CHI Wen Fu SHUM Sai Chit
Principal bankers	DBS Bank (Hong Kong) Limited The Center, 99 Queen's Road Central Central Hong Kong

CORPORATE INFORMATION

**Principal share registrar and
transfer office**

Bank of Butterfield International (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 75
George Town
Grand Cayman
Cayman Islands

**Hong Kong share registrar
and transfer office**

Tricor Investor Services Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

INDUSTRY OVERVIEW

OVERVIEW OF THE AGRICULTURE INDUSTRY IN THE PRC

The PRC is one of the fastest growing economies in the world and the agricultural industry plays an important role in the PRC economy. According to the National Bureau of Statistic, the PRC, the primary industry accounted for 14.5% of the country's total gross domestic product in 2002. According to the China's Statistical Year Book 2002, the gross output value of the agricultural industry grew from RMB514.6 billion in 1991 to RMB1,446.3 billion in 2001, representing a CAGR of 10.9% over the decade. With a huge and growing population base of 1.28 billion at the year end of 2002 according to the China's Economic and Social Development Statistical Report 2002, China's consumption demand for various agricultural produces is very substantial. Meanwhile, the country's farmland is relatively limited, with only approximately 130 million hectares of arable land, representing 13.5% of the country's total land area, according to China's Statistical Year Book 2002. The PRC government has placed high priority on development of the agricultural industry by encouraging efficient utilization of the country's precious farmland resources and by promoting sustainable long term development of the agricultural industry.

Organic agriculture movements and standards

Organic agriculture includes all agricultural systems that promote the environmentally, socially and economically sound production of food and vegetables. And promoting soil fertility is the cornerstone. Organic agriculture is aimed to reduce external inputs by refraining from the use of chemical fertilizers and chemical pesticides. Different countries, such as EU, USA, Japan and China, however, have formulated and promulgated their own national standards for implementing the concept of organic agriculture.

The International Federation of Organic Agriculture Movements ("IFOAM") is the industry's leading international non-government organization which formulates organic food standards and promotes the certification of organic food. The IFOAM currently has over 700 member organizations in over 100 countries worldwide and has formulated a set of standards for organic food certification to be used by individual countries as a basis for developing their organic food standards. IFOAM promotes organic crops to be grown on soil without using chemical fertilizers. In addition, IFOAM also promotes no use of chemical pesticides or other related products during the cultivation process for organic crops.

BCS is a private inspection body based in Germany and was approved by EU in May 1992 to implement the EU Regulation No. 2092/91 "Organic Production of Agricultural Products" on products of organic origin. BCS is a member of IFOAM. BCS assists in export procedures of organic products from third countries to the EU by providing inspection and certification to producers of products of organic origin in accordance with the standards under EU Regulation No. 2092/91 "Organic Production of Agricultural Products". This EU-regulation contains regulations on importing organic products from the so-called "Third Countries" to the EU. Organic products must be certified to be in compliance with this EU Regulation No. 2092/91 before they could be labelled as "organic" and be sold in the EU.

Organic food, green food, and pollution-free food industry in the PRC

On 29 April 2002, the Ministry of Agriculture of the PRC announced the Pollution-free Agricultural Products Administrative Rules (無公害農產品管理辦法) with the objectives of strengthening the regulatory procedures for pollution-free agricultural product and protecting agricultural production environment. According to this rule, the “pollution-free agricultural products” (無公害農產品) is defined as primary agricultural products which production procedures and product qualities meet the safety requirements of the relevant national standards. In order to be qualified and labeled as pollution-free agricultural products, the production procedures, the production environment and the qualities of the products need to be inspected and certified by the authorized government departments in the PRC. The Directors believe that the pollution-free agricultural product standards are really the basic standards for all agricultural products, as any agricultural product that contains polluted or harmful materials should not be consumed.

The organic food and green food standards are generally higher than the pollution-free agricultural product standards. The development of the organic food and green food industry is still in the preliminary stage in the PRC. Since the early nineties, however, the PRC government has begun to place increasing emphasis on environmental and health issues relating to agricultural production. In May 1990, the Ministry of Agriculture launched the Green Food Project for promoting the development and the public awareness of green food and organic food products in the PRC. In the Tenth Five Year Plan of National Agriculture and Rural Economy Development 2001–2005, (全國農業和農村經濟發展第十個五年計劃2001 – 2005) prepared by the Ministry of Agriculture of the PRC, protection of natural resources, maintenance of an ecologically balanced environment, and development of sustainable agricultural industry are set as the guidance for future development of agricultural industry in the PRC.

Currently, two official organizations have been established in the PRC for the promotion of pollution-free agricultural product or generally known as green food products in the PRC. Organic Food Development Center of China (“OFDC”) was established under the State Environmental Protection Administration of the PRC in October 1994. The OFDC has developed a set of organic food standards in relation to the production, certification and export of organic food in the PRC. These standards are based on the broad principles of organic food production laid down by the IFOAM. One of the standards require that the food production process must restrict the use of genetically-modified raw materials, chemical pesticides, chemical fertilizers and other chemical substances. The OFDC is currently a member of the IFOAM.

The China Green Food Development Center (“CGFDC”) was established under the Ministry of Agriculture of the PRC in November 1992 for promoting green food production in the PRC. The CGFDC is also a member of the IFOAM. The CGFDC defines “green food” as high quality, nutritious, pollution-free food products which do not involve the use of harmful chemical fertilizers, chemical pesticides and chemical compounds or involve only limited use

INDUSTRY OVERVIEW

of specific types of chemical compounds during their production or processing. In 1995, CGFDC published the Standards of Green Food of the PRC. According to CGFDC's Standards, there are two levels of green food: Class AA Green Food and Class A Green Food. The Class AA Green Food represents a higher standard and is close to the Western standard of organic food. Class A Green Food is still considered safe but permits certain amounts of chemical compounds to be used in production. CGFDC, with the support of the Ministry of Agriculture, has been active in promoting the development of green food products in the PRC. Over the recent years, the number of products certified as green food increased from 2,487 as at the year end of 1999 to 3,046 as at the year end of 2002 as reported by the China Green Food Net (中國綠色食品網 www.greenfood.org.cn) which is under CGFDC.

The Group's microbial compound fertilizer and organic fertilizer products may be used for the agricultural production of organic food, Class A and Class AA green food, and pollution-free agricultural products. The Group's organic compound fertilizer products may be used to produce pollution-free agricultural products.

In recent years, with the increase in health awareness amongst consumers in the PRC, the production and sales of green food and organic food products, or food products using organic fertilizers, have increased significantly in the PRC. As reported by the Guangdong Agricultural Information Web (廣東農業信息網 www.gd.agri.gov.cn), the annual production of green foods in the PRC has increased from a minimal amount in 1990 to 15 million tonnes in 2000. The production of green food products was further increased to 25 million tonnes in 2002, as reported by the China Green Food Net. In order to speed up development of green food, the Ministry of Agriculture of the PRC has set a target for the annual production of green food products to reach approximately 45 million tonnes in 2005 as reported by the China Green Food Net. The Directors believe that the increasing development of organic and green food industry will result in growing demand for organic fertilizer products in the PRC.

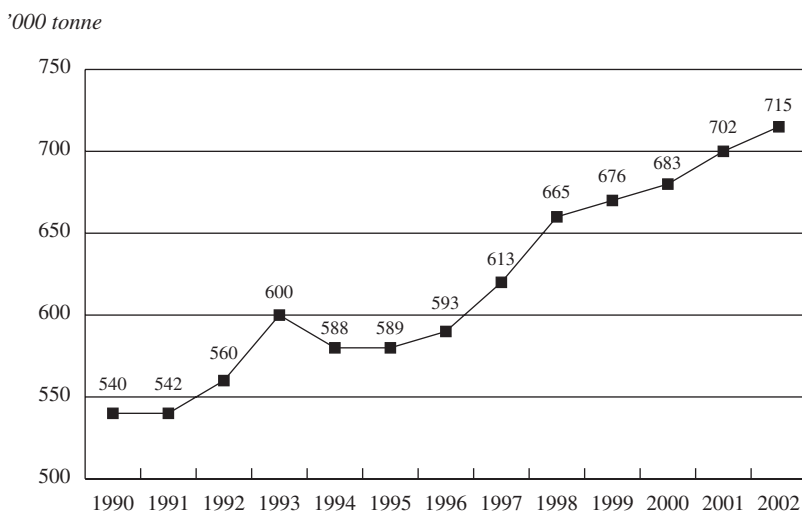
OVERVIEW OF THE TEA INDUSTRY IN THE PRC

Tea is consumed throughout the world and the PRC is famous for its tea. According to the Bulletin of Statistics released in 2003 by the International Tea Committee, an independent organisation based in London, the PRC ranked second, after India, in terms of tea production output in the world with approximately 715,000 tonnes in 2002. The PRC accounted for approximately 24% of the world total tea production in 2002. In terms of tea exports, the PRC ranked third in the world with approximately 252,273 tonnes after Sri Lanka and Kenya.

INDUSTRY OVERVIEW

The following chart shows tea production in the PRC for the period from year 1990 to 2002:–

Tea Production in the PRC (1990–2002)



Source: China's Statistical Year Book 2002

During the past twelve years to 2002, total tea production in the PRC in terms of tonnage has grown by 32%. In 2001, total arable land area for tea plantation in the PRC was approximately 1,141 kilo-hectares. However, tea production area in the PRC is concentrated in five PRC provinces: Fujian (131 kilo-hectares), Zhejiang (131 kilo-hectares), Yunnan (174 kilo-hectares), Hubei (156 kilo-hectares) and Anhui (112 kilo-hectares), which in aggregate accounted for a total area of approximately 704 kilo-hectares or 62% of the total tea plantation area in the PRC in 2001. The total tea production in 2001 in the PRC was as follow:–

PRC provinces	Tea Production ('000 tonnes)	As a percentage of total production (%)
Fujian	134	19
Zhejiang	121	17
Yunnan	81	12
Hubei	64	9
Anhui	47	7
Others	255	36
Total (all PRC provinces)	702	100

Source: China's Statistical Year Book 2002

INDUSTRY OVERVIEW

Within the PRC, the Fujian province ranked first in terms of tea production (134,000 tonnes in 2001), and second in terms of tea exports (23,000 tonnes in 2002) and fourth in terms of area of tea plantation (131 kilo-hectares).

According to statistics published by the Ministry of Agriculture of the PRC, in 2000, tea exports ranked third in terms of volume among agricultural export products after corn and rice, and ranked first in terms of export price per ton. However, Chinese tea farmers begin to face increasingly tighter quality controls from importing countries. Import standards for tea are now set at much higher levels than before. For example, inspection checks against the use of pesticides has been continually tightened, with the number inspection items reaching 134. The limits for residual pesticides levels was tightened from 10 milligram per kg of tea in 2000 to 0.05 milligram per kg of tea in 2001, an 200-fold increase in restriction level. In order to break the rising entry barriers, Chinese tea farmers need to improve their product qualities by restricting the use of chemical compounds and pesticides during their production and processing. The Directors believe that the increased import standards from the tea importing countries will encourage the use of organic fertilizers by the Chinese tea farmers expecting to export to overseas countries, as organic fertilizers do not leave chemical and pesticides residual during the production process.

Development of organic teas

Organic teas began in Sri Lanka in the early 1980s. Other tea producing countries such as India, Tanzania, Japan and Kenya followed suit in late 1980s. Organic teas began to be sold in the United Kingdom and other western countries in 1989. According to the Tea Research Institute of Agricultural Science Academy of the PRC, in 2002, the total organic teas sold in the world was about 6,000 tonnes, accounting for only 0.5% of the total annual tea sales. As reported by the China Agriculture Web (中國農網 www.aweb.com.cn), with the global trend toward increasing environmental protection, it is estimated that in 2005 the proportion of organic tea as a percentage of total annual tea consumption worldwide is expected to increase continually.

Organic teas were not grown in the PRC until 1990s, mainly due to the lack of information amongst tea growers and the lack of availability of quality organic fertilizers. As reported by Fuding Agricultural Website (www.fd366.com), the production output of organic teas in the PRC amounted to approximately 500 tonnes in 1998, 1,000 tonnes in 1999 and 2,000 tonnes in 2000. According to the Chinese Tea magazine (3rd edition 2002) published by the Chinese Academy of Agricultural Sciences (中國農業科學研究院), organic and green tea products are drawing increasing attention from the Chinese tea farmers. For instance, there are 37 tea products in Fujian province which were certified and labelled as Green Food products by the end of 2002. In addition, the production of green tea products in Fujian province amounted to 2,425 tonnes in 2002. As there has been increasing awareness among consumers of the benefits of organic food and green food, the Directors believe that there is significant market potential for organic teas in the PRC.

INDUSTRY OVERVIEW

The OTRDC is an institution approved by the Ministry of Agriculture of the PRC to carry out certification on organic tea, organic tea derived products and organic tea production materials in the PRC. The primary objective of the OTRDC is to promote the protection of the ecological environment of the tea plantation districts by restricting the use of chemical fertilizers and chemical pesticides, and the production and consumption of organic tea products in the PRC. The OTRDC has developed a set of quality standards in relation to the plantation, production, packaging, transportation and storage of organic tea. One of the standards requires that the organic tea plantation and production process must restrict the use of chemical pesticides, chemical fertilizers and other chemical substances. OTRDC is currently a member of IFOAM.

DEMAND FOR FERTILIZER PRODUCTS IN THE PRC

Chemical fertilizer products

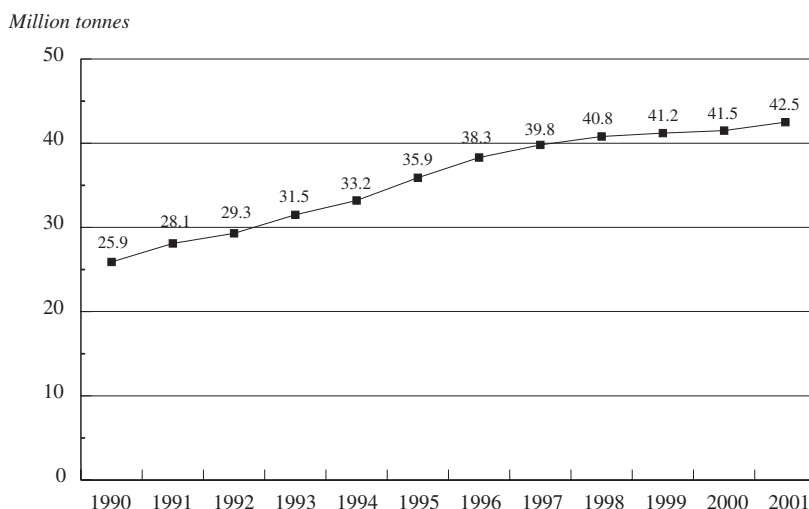
A chemical fertilizer is defined as any inorganic material of wholly or partially synthetic origin that is added to the soil to sustain plant growth. The primary advantage of using chemical fertilizer is that nutrients are immediately available to the plants. However, many chemical fertilizers contain acids, such as sulphuric acid and hydrochloric acid, which tend to increase the acidity of the soil, reduce the soil's beneficial organism population and interfere with plant growth.

Over the years, chemical fertilizers were widely used within the PRC agricultural industry. Such usage had caused general arable soil condition to deteriorate, disappearance of grasslands and pollution of ponds and lakes due to chemicals run-offs. In addition, widespread chemical fertilizer usage leads to the weakening of the crops' immunity from diseases and harmful bacteria, leading to inordinate usage of chemical pesticides by farmers. In addition, residual chemical pesticides on crops that are consumed by human are harmful to health.

INDUSTRY OVERVIEW

The following chart shows the total chemical fertilizers consumption in the PRC for the period from 1990 to 2001:–

Total Chemical Fertilizers Consumption in the PRC (1990–2001)



Source: National Bureau of Statistics of China

According to the China's Statistical Year Book 2002, total consumption of chemical Fertilizers in Fujian province amounted to approximately 1.2 million tonnes in 2001. According to China Chemical Industry Information Centre in January 2004, it is estimated that the total consumption of chemical fertilizers in the PRC will reach approximately 45 million tonnes.

The Group is not engaged in the production of any chemical fertilizer products.

Organic fertilizers

Organic fertilizer is defined as carbon materials of natural origin (primarily comes from plants and animals) that is added to the soil to provide nutrients to plants growth. Organic fertilizers are generally produced from livestock wastes and do not contain synthetic chemical additives. Compared to chemical fertilizer, organic fertilizer provides a slow release of nutrients as micro-organisms in the soil break down the organic matters contained in organic fertilizer into inorganic, water soluble form which is readily available to plants. As such, there is less danger of over-fertilization by using organic fertilizers. In general, organic fertilizer helps to improve soil structure and fertility and to increase the water and nutrient holding capacity of the soil.

Microbial compound fertilizer is a type of organic fertilizer. Under the Agriculture Industry Standard of the PRC (中華人民共和國農業行業標準) (the "Standard"), microbial compound fertilizer is defined as a type of fertilizer which contains two or more types of microbes such as phosphorus-liberating, potassium-liberating, or nitrogen-fixing bacteria, through the biological activities of which provide nutrients to the plants when added to the

INDUSTRY OVERVIEW

soil. Microbial compound fertilizer can be in the form of liquid, solid or grain. The Standard sets technical standards for various microbial compound fertilizer products. For example, it requires that the number of effective bacteria contained in each milliliters of microbial compound fertilizer in solid form must be not less than 200 million and the effective term of usage of the product must be not less than six months. In general, microbial compound fertilizer helps the plants to secure nitrogen from the air and to dissolve useful minerals such as phosphorus and potassium from soil. It also helps to control pathogenic diseases and fungi growth and to increase the water holding capacity of the soil.

Microbial compound fertilizer products are generally in concentrated form which can be used alone or together with other types of organic fertilizer products.

Organic compound fertilizers

Organic compound fertilizer is also referred to as organic-inorganic compound fertilizer. It is a mixture of organic fertilizer with prescribed chemical components to achieve targeted technical nutrient standards. The Standard requires that organic matters contained in organic compound fertilizer must be not less than 15% in terms of weight and total nutrients contained must be not less than 20%. Organic compound fertilizer takes advantage of both chemical and organic fertilizer. It contains synthetic nutrients which are immediately available to plants as well as organic matters which provide slow release of nutrients to the plants. Compared to microbial compound fertilizer and organic fertilizer products, organic compound fertilizer contains less organic matters and bacterial. Organic compound fertilizer products help Chinese farmers to gradually reduce their reliance on chemical fertilizers in agricultural productions.

The future prospects of organic fertilizer products in the PRC

According to statistics released by the National Bureau of Statistics of the PRC, China is currently the largest user of chemical fertilizers in the world with a total consumption of approximately 42.5 million tonnes in 2001. Witnessing the adverse impact to biological environment in China due to the inordinate use of chemical fertilizers and pesticides, the Ministry of Agriculture of the PRC launched the Rich Soil Project in farms throughout the country in 1998. The Rich Soil Project was first initiated by the Ministry of Agriculture, PRC in 1995. The overall objective of the Rich Soil Project is to fundamentally improve the agricultural production environment in the PRC and to preserve the ecological systems in the countryside. The Rich Soil Project calls for strict checking and monitoring of soil fertility and stresses to maintain the optimal balance of soil fertilization and water resources. The Rich Soil Project also calls for increased usage of organic fertilizers in order to improve the overall productivity of farm land and maintain a sustainable agricultural development in the PRC. In launching the Rich Soil Project, eight provinces, including Zhejiang, Hubei and Liaoning, were selected for a trial in 1998. Following the positive results from these provinces, the Rich Soil Project was further implemented in another 12 provinces in the PRC in 2001. In addition, the Project was included in the Tenth Five-Year Plan (2001-2005) of the Ministry of Agriculture of PRC. In 2002, with the full endorsement of the Rich Soil Project by the State Council of the PRC, the Ministry of Agriculture of the PRC began to establish a comprehensive soil fertility monitoring and fertilizer quality testing system nationwide. Under the program, the

INDUSTRY OVERVIEW

Ministry of Agriculture of the PRC will conduct fertility evaluation on all the farm lands in the PRC during the period of the Tenth Five-Year Plan (2001–2005). The Directors believe that the increased usage and application by farmers of organic fertilizers in the PRC will lead to increased demand for the Group's products in general.

SUPPLY OF ORGANIC FERTILIZER PRODUCTS IN THE PRC

According to the latest information released by the PRC Agricultural Industry Information Website (中國農業信息網 www.agri.gov.cn) as at 2 January 2003, there are over 200 different types of organic fertilizer products registered with the Ministry of Agriculture of the PRC, among which 12 products are microbial compound fertilizer products. The table below sets out particulars of these 12 products:–

	Names of company	Location	Application
1.	北京新農綠業生物工程 有限責任公司 (Beijing Xinnong Luye Biotechnology Co., Ltd.)	Beijing, PRC	Cotton, flowers, etc.
2.	北戴河天豐固氮肥廠 (Beidaihe Tainfeng Nitrogen-fixing Fertilizer Factory)	Beidaihe, Hebei Province, the PRC	Watermelons, wheat, corn, etc.
3.	湛江市道弘生物固氮肥有限公司 (Zhanjiang Daohong Nitrogen-fixing Fertilizer Co., Ltd.)	Zhanjiang, Guangdong Province, PRC	Cotton, vegetables, tobacco, etc.
4.	大連施倍得生物技術有限公司 (Dalian Shipeide Biotechnology Co., Ltd.)	Dalian, Liaoning Province, PRC	Wheat, beans, tomatoes, etc.
5.	湖北襄陽綠馥欣生物工程 技術發展有限公司 (Hubei Xiangyang Lufuxin Biotechnology Development Co., Ltd.)	Xiangyang, Hubei Province, PRC	Beans, vegetables, etc.
6.	吉林市亨利生物肥業 開發有限公司 (Jilin Hengli Biological Fertilizers Development Co., Ltd.)	Jilin, Jilin Province, PRC	Beans, peanuts, corn, etc.
7.	湖南農大哥科技開發有限公司 (Hunan Nongdage Technology Development Co., Ltd.)	Hunan Province, PRC	Vegetables, watermelons, tomatoes, etc.

INDUSTRY OVERVIEW

	Names of company	Location	Application
8.	Youxi Greenland	Youxi, Fujian Province, PRC	Teas, vegetables, etc.
9.	北京中農新科生物科技有限公司 (Beijing Zhongnong Xinke Biotechnology Co., Ltd.)	Beijing, PRC	Wheat, vegetables, etc.
10.	大連中盈生物科技發展有限公司 (Dalian ZhongYin Biotechnology Development Co., Ltd.)	Dalian, Liaoning Province, PRC	Vegetables, corn, etc.
11.	深圳市芭田生態工程股份有限公司 (Shenzhen Batian Ecological Engineering Joint Stock Limited Liability Co., Ltd.)	Shenzhen, Guangdong Province, PRC	Watermelons, vegetables, etc.
12.	秦皇島領先科技發展有限公司 (Qinhuangdao Leading Technology Development Co., Ltd.)	Qinhuangdao, Hebei Province, PRC	Wheat, apple, yellow melon

All of the other 11 producers above are Independent Third Parties and none of them is based in Fujian province, the PRC.

According to the latest information released by the OTRDC as at 20 March 2003, there are four manufacturers of organic tea fertilizer products approved by the OTRDC. The table below sets out particulars of these four products:–

	Names of company	Location	Registered trade mark
1.	Youxi Greenland	Youxi, Fujian Province, the PRC	綠滴牌
2.	上海長征化工廠有機肥分廠 (Shanghai Long March Chemical Factory, Organic Fertilizer Sub-factory)	Shanghai, the PRC	長征牌
3.	江山市金鷹實業有限公司 (Jiangshan Jin Ying Enterprise Co., Ltd.)	Jiangshan, Zhejiang Province, the PRC	阿姆斯特牌
4.	上海金明天源生物製品有限公司 (Shanghai Jinming Tianyuan Bio-products Co., Ltd.)	Shanghai, the PRC	天緣牌

All of the other three producers above are Independent Third Parties and none of them is based in Fujian province, the PRC.

INDUSTRY OVERVIEW

As at 31 March 2003, there were eight organic fertilizer producers and five organic compound fertilizer producers registered with the Agriculture Bureau of Fujian province, the PRC.

REGULATIONS GOVERNING THE PRC FERTILIZER INDUSTRY

The PRC fertilizer industry is regulated by the Ministry of Agriculture of the PRC. Pursuant to the Regulations on Registration of Fertilizers (肥料登記管理辦法) (the “Regulations”) promulgated by the Ministry of Agriculture of the PRC which became effective on 23 June 2000, manufacturers of fertilizer must register the details of the fertilizers produced by them with the Ministry of Agriculture prior to the relevant fertilizers being imported, manufactured, sold, used or promoted in the PRC.

The Regulations divide the registration process into 2 stages: the provisional registration stage and the formal registration stage. Manufacturers which have completed field trials of a particular type of fertilizer may apply to the Ministry of Agriculture for provisional registration of the relevant fertilizer in order to conduct experimental sales in the PRC. The provisional registration is valid for 1 year and may be renewed twice only. After satisfactory assessment on the chemistry, efficacy and safety of the fertilizer by the Fertilizer Registration Assessment Committee (肥料登記評審委員會), the manufacturer may apply for formal licence in order to commence commercial production of the relevant fertilizer. The formal licence is valid for 5 years commencing from the date of registration and may be renewed. However, fertilizers which have been commonly used in the field for a long period of time or certain standardised fertilizing products as stipulated in the Regulations will be exempted from the registration procedures. The Directors believe, based on their own experience, that the registration process for a new type of organic fertilizer product would normally take a period of two to three years to complete.

In addition to the registration of fertilizers, fertilizer manufacturers are required to apply for production licences for the production of fertilizers which are issued by the State General Administration of the PRC for Quality Supervision and Inspection and Quarantine (國家質量監督檢驗檢疫總局) and each licence is valid for not more than 5 years. Applications for extension of the validity period must be made prior to their respective expiry dates.

The producers of organic tea fertilizers in the PRC are required to apply to OTRDC for certification.

The Group obtained all approvals required for the production and sale of its products in the PRC. The Group’s fertilizer products are not subject to any price controls in the PRC.

BUSINESS OF THE GROUP

Based in Fujian province in the PRC, the Group is engaged in the research and development, production and sale of microbial compound fertilizer (複合微生物菌劑), organic fertilizer (有機肥) and organic compound fertilizer products (有機複混肥) for different agricultural applications. Microbial compound fertilizer and organic fertilizer products developed by the Group may be used in organic farming of tea, orchards and vegetable as well as other organic agricultural products, such as peanuts and rice. Organic compound fertilizer products developed by the Group may be used to produce pollution-free agricultural products, such as orchards, tea and vegetable.

Soil fertility is the key for plantation. Healthy soil should consist of minerals, water, air, organic matter (plant and animal residue), microorganisms, including bacteria, fungi and protozoa and a variety of insects and worms, of which a process that continually replenishes the soil and maintains soil fertility will be carried out. For sustained plant growth, it requires macro-nutrients and trace elements. Macro-nutrients include nitrogen, phosphorous, potassium, calcium, magnesium and sulphur. Trace elements include iron, manganese, copper and zinc. Soil must be capable of storing nutrients and conveying them to the plant root for healthy growth of the plants.

The Group's microbial compound fertilizer products are produced from bacteria which are extracted from natural soil. The Group's microbial compound fertilizer product contains nitrogen-fixing bacteria, phosphorus-liberating and potassium-liberating bacteria. Nitrogen-fixing bacteria help to release nitrate from atmospheric nitrogen into the form which can be easily absorbed by plants. Phosphorus-liberating and potassium-liberating bacteria facilitate phosphate and potassium in the soil to be converted into water soluble form which is suitable for plants. The Group's microbial compound fertilizer products also contain macro-nutrients and trace elements, such as calcium, magnesium, iron, manganese, copper and zinc, which are in concentrated form and may be used separately or together with other types of organic fertilizers.

In addition to microbial compound fertilizer products, the Group also offers other types of organic fertilizer and organic compound fertilizer products for different agricultural applications. Organic compound fertilizer differs from organic fertilizer by containing prescribed inorganic components. Currently, the Group's organic fertilizer products include two products, namely, the "LU DI" (綠滴) organic tea fertilizer and the "LU DI" (綠滴) premium organic fertilizer. All of the Group's fertilizer products are sold by the Group under the "LU DI" (綠滴) trademark.

For the financial year ended 31 December 2001, sales of the Group's fertilizer products amounted to approximately RMB5,923,000, of which microbial compound fertilizer, organic fertilizer and organic compound fertilizer products accounted for approximately 65%, 28% and 7%, respectively. For the financial year ended 31 December 2002, sales of the Group's fertilizer products amounted to approximately RMB42,630,000, of which microbial compound

BUSINESS OF THE GROUP

fertilizer, organic fertilizer and organic compound fertilizer products accounted for approximately 43%, 36% and 21%, respectively. For the eight months ended 31 August 2003, sales of the Group's fertilizer products amounted to approximately RMB25,216,000, of which microbial compound fertilizer, organic fertilizer and organic compound fertilizer products accounted for approximately 38%, 37% and 25%, respectively.

In terms of the end users of the Group's products, for each of the Track Record Periods, approximately 50%, 53% and 56% of the Group's sales were sold to tea farmers, respectively, with the remaining 50%, 47% and 44%, respectively, were sold to farmers of other types of plantation, such as orchard and vegetables. All end users of the Group's products are Independent Third Parties in Fujian Province in the PRC. The Group conducts sales through its sales teams and appointed distributors. For each of the Track Record Periods, approximately 89%, 39% and 30%, respectively, of the Group's sales were directly made to customers and approximately 11%, 61% and 70%, respectively, of the Group's sales were made through appointed distributors. As at the Latest Practicable Date, the Group had 22 appointed distributors that were all Independent Third Parties in Fujian province in the PRC.

The Group's fertilizer products received recognitions from government authorities and independent organizations in the PRC. According to the information released by the PRC Agricultural Industry Information Website (中國農業信息網 www.agri.gov.cn) as at 2 January 2003, the Group's "LU DI" (綠滴) microbial compound fertilizer product was one of the 12 microbial compound fertilizer products registered with the Ministry of Agriculture of the PRC (中華人民共和國農業部). As at 20 March 2003, the Group's "LU DI" (綠滴) organic tea fertilizer product was one of the four organic fertilizer products approved by OTRDC. In addition, the Group's "LU DI" (綠滴) organic tea fertilizer product is certified by BCS for its compliance with the requirements of EU Regulation No. 2092/91 "Organic Production of Agricultural Products". This regulation contains the requirements for importing organic products from other countries to the European countries. Although the Group does not export its products to the European countries, the Directors believe that the recognition of the Group's organic tea fertilizer product by BCS will facilitate the Group's promotion of such product to tea farmers who would like to export their tea products to the European countries. The BCS certification will expire on 31 October 2004.

The Group's production plant is located at Youxi (尤溪), Fujian province in the PRC. After completion of the expansion of its production capacity in June 2003, the Group's production plant currently has an annual production capacity of approximately 3,000 tonnes of microbial compound fertilizer products and approximately 20,000 tonnes of organic fertilizer products and organic compound fertilizer products. During the Track Record Periods, the Group also engaged the services of two subcontractors in Minhou (閩侯) and Luoyuan (羅源), Fujian province, the PRC, who were Independent Third Parties, to produce organic compound fertilizer products. The current annual production capacity of the Luoyuan plant is 20,000 tonnes of organic compound fertilizer products. The subcontracting arrangement with the Minhou plant was entered into in November 2001 and was expired in November 2002. This arrangement was not renewed as the Group engaged the Luoyuan subcontractor in January

2002 to replace the Minhou subcontractor. The subcontracting arrangement with Luoyuan plant will expire in December 2004. Particulars on the Group's production capacity and these subcontracting arrangements are set forth under "Production process of the Group" below.

HISTORY AND DEVELOPMENT OF THE GROUP

Mr. Chi started the research and development of organic fertilizer products in January 1998. At the time, Mr. Chi was the managing partner at a law office in Fuzhou, Fujian province, the PRC. Inspired by Mr. Ge Cheng (葛誠), who was a friend of Mr. Chi and specialised in organic fertilizer research, Mr. Chi realized that organic plantation would be a trend in tea plantation industry in the PRC. Based on such belief and the basic knowledge of chemistry learned from early study, Mr. Chi started and funded preliminary research on microbial compound fertilizer in January 1998. During the period between January 1998 and December 1999, the research was principally conducted by Mr. Ge Cheng, the chairman of the Advisory Panel of the Group, Mr. Liu Lian Ya (劉聯雅), the Deputy Chief Technology Officer of the Group, and Mr. Chi. The research was primarily focused on the development and extraction of nitrogen-fixing, phosphorus-liberating and potassium-liberating bacteria. In December 1998, the prototype of microbial compound fertilizer was developed and put into field test. After about one year's testing, the product was successfully developed in December 1999.

With a view to start the commercial production of the Group's microbial compound fertilizer, Mr. Chi engaged 北京恆利新業技貿有限公司 (Beijing Heng Li Xin Ye Technology and Trading Company Limited), an Independent Third Party, for consultancy service in relation to the commercialization of the Group's microbial compound fertilizer products in August 1999. The Directors knew that Beijing Heng Li Xin Ye Technology and Trading Company Limited was principally engaged in the design, production and fabrication of electrical and mechanical equipments. The commercialization of the Group's microbial compound fertilizer products involved the design and development of the production process for the commercial production of the fertilizer products with an aim to achieve economy scale of production. Mr. Chi paid Beijing Heng Li Xin Ye Technological Trading Company Limited a remuneration in the amount of RMB1,000,000 for the consultancy service.

In January 2000, Mr. Chi established Youxi Greenland together with two other investors, Ms. Zou and Mr. Lin Pei Qiang (林培強), an Independent Third Party, with an objective to engage in the research and development, production and sale of organic fertilizer products in Fujian province, the PRC. Upon the establishment of Youxi Greenland, it had a registered capital of RMB5,000,000 and was owned as to 60% by Mr. Chi, 20% by Ms. Zou and 20% by Mr. Lin Pei Qiang. Mr. Chi made his contribution in the registered capital of Youxi Greenland of RMB3,000,000 by way of injection of the production facilities at Youxi factory valued at RMB2,000,000 and intangible asset of the production technology of microbial compound fertilizer valued at RMB1,000,000. Each of Ms. Zou and Mr. Lin Pei Qiang made his and her contribution in the registered capital of Youxi Greenland of RMB1,000,000 by way of injection of production facilities at Youxi factory. The registered capital of Youxi Greenland was

BUSINESS OF THE GROUP

verified by a verification report (You Hua Hui Suo (2000) Yan Zi No. 2) (尤華會所(2000)驗字02號) prepared by Youxi Hua Shi Certified Public Accountants (尤溪縣華實有限責任會計師事務所) dated 10 January 2000. The intangible asset of RMB1,000,000 contributed by Mr. Chi represented the remuneration paid by Mr. Chi to Beijing Heng Li Xin Ye Technology and Trading Company Limited for consultancy service provided in relation to the commercialization of the Group's microbial compound fertilizer. The production facilities injected by Mr. Chi, Ms. Zou and Mr. Lin Pei Qiang in the aggregated amount of RMB4,000,000 represented the total of (a) a contract sum of approximately RMB2,900,000 paid to Beijing Heng Li Xin Ye Technology and Trading Company Limited for certain machinery equipment; and (b) a contract sum of approximately RMB1,100,000 paid to 福州馬尾亭江建築公司 (Fuzhou Ma Wei Ting Jiang Construction Company), an Independent Third Party, for the construction of the Youxi factory.

Upon the establishment of Youxi Greenland, it entered into an agreement with the local government of Xi Cheng Town, Youxi County to lease from it the Group's existing factory premises in Youxi, Fujian province, the PRC for a period of 20 years commenced from October 2001. Under this agreement, the annual rent for the factory premises is RMB50,000. Youxi Greenland started the trial production of microbial compound fertilizer at the Youxi factory in March 2000.

Following the commencement of the trial production at the Youxi factory, the Group found it necessary to build a machine to facilitate the commercial production of organic fertilizer products. As the Group was not aware of any similar technology that was available in the PRC at the time, Youxi Greenland purchased from 深圳市恒美嘉實業有限公司 (Shenzhen Heng Mei Jia Enterprise Company Limited), an Independent Third Party, certain machinery design and development technology for a total consideration of RMB2,000,000. The Group intended to develop an organic fertilizer processor based on such technology.

In June 2000, Sanming Century was established by Youxi Greenland and Mr. Chi Wen Qiang (池文強), a younger brother of Mr. Chi, to undertake research and development of an organic fertilizer processor. Upon the establishment of Sanming Century, it had a registered capital of RMB5,000,000 and was owned as to 80% by Youxi Greenland and 20% by Mr. Chi Wen Qiang. Youxi Greenland made its contribution in the registered capital of Sanming Century by way of injection of fertilizer products of RMB1,100,000, production machinery of RMB900,000 and intangible asset of RMB2,000,000 representing the machinery design and development technology of organic fertilizer processor. Mr. Chi Wen Qiang made his contribution by injection of cash in the amount of RMB1,000,000. The production machinery of RMB900,000 represented the contract sum paid to Shenzhen Heng Mei Jia Enterprise Company Limited for certain machinery equipment. The intangible asset of RMB2,000,000 represented the machinery design and development technology purchased from Shenzhen Heng Mei Jia Enterprise Company Limited. Based on the purchased technology, Sanming Century developed its first organic fertilizer processor in December 2000.

BUSINESS OF THE GROUP

In the second half of 2000, the Group focused on conducting market research and analysis on potential demands for the Group's microbial compound fertilizer and organic fertilizer products. Efforts were primarily made on promotion of the Group's fertilizers to tea plantations at major tea producing districts within the Fujian province, such as Ningde (寧德), Nanping (南平) and Quanzhou (泉州). Meanwhile, the Group filed applications with the Ministry of Agriculture, the PRC for the registration of its microbial compound fertilizer. The Group also filed registrations with OTRDC and the Agriculture Bureau of Fujian province, the PRC for the Group's organic fertilizer products.

In September 2000, the Group engaged 台灣昌華農業精機有限公司 (Taiwan Changhua Agriculture Machinery Co., Ltd.), an Independent Third Party, to carry out technical enhancement on the Group's organic fertilizer processor for an aggregated payment of RMB600,000. The technical enhancement included modification and development of technical know-how on the design and functionality of the organic fertilizer processor. Such amount was regarded as intangible assets of the Group for the financial year ended 31 December 2001.

In March 2001, the Group's "LU DI" (綠滴) organic tea fertilizer products obtained the certification from OTRDC. In August 2001, Youxi Greenland registered its "LU DI" (綠滴) as a trade mark in the PRC.

In April 2001, Sanming Century obtained the Fujian Technology Enterprise Certificate.

In July 2001, the Group formally launched its microbial compound fertilizer product.

In October 2001, the Group formally launched its organic tea fertilizer, premium organic fertilizer and organic compound fertilizer products.

In February 2002, Sanming Century obtained the patent certificate from the PRC authorities in respect of its organic fertilizer processor.

In July 2002, in preparation for the listing of the Shares on GEM, Century Sunshine was incorporated in Hong Kong and was owned as to 60% by Mr. Chi, 20% by Ms. Zou, and 20% by Mr. Lin Pei Qiang, respectively. In October 2002, Century Sunshine became the holding company of Youxi Greenland by acquiring from Mr. Chi, Ms. Zou, and Mr. Lin Pei Qiang their respective interest in Youxi Greenland for an aggregate cash consideration of approximately RMB10,500,000 representing the net asset value of Youxi Greenland as at 31 July 2002. The respective beneficial interest of Mr. Chi, Ms. Zou and Mr. Lin Pei Qiang in Youxi Greenland immediately after the acquisition remained unchanged.

BUSINESS OF THE GROUP

In order to fulfill the payment obligation of Century Sunshine under the acquisition of Youxi Greenland, in December 2002, Mr. Chi and Go Modern Limited entered into a loan facility agreement pursuant to which Go Modern Limited made available to Mr. Chi a loan facility in the principal sum of HK\$10,000,000 at an interest rate of 8% per annum. Under the loan facility agreement, Go Modern Limited is entitled to convert the principal sum of the loan of HK\$10,000,000 into Shares at a price equivalent to 60% of the Offer Price prior to the Share Offer. The loan was subsequently drawn down by Mr. Chi in the sum of HK\$10,000,000. In January 2003, Mr. Chi entered into an agreement with each of Ms. Zou and Mr. Lin Pei Qiang pursuant to which Mr. Chi lent HK\$2,000,000 to each of Ms. Zou and Mr. Lin Pei Qiang. Mr. Chi, Ms. Zou and Mr. Lin Pei Qiang then advanced HK\$6,000,000, HK\$2,000,000 and HK\$2,000,000, respectively, to Century Sunshine as shareholders' loans to finance the acquisition of Youxi Greenland for an aggregate cash consideration of approximately RMB10,500,000.

As part of the Reorganisation, in May 2003, Mr. Chi acquired the shareholdings of Mr. Lin Pei Qiang in Century Sunshine for an aggregate consideration of HK\$2,000,000 which was determined by reference to the net asset value of Youxi Greenland as at 31 July 2002 of approximately RMB10,500,000. In January 2004, as part of the Reorganisation, shareholders of Century Sunshine transferred their entire shareholdings to New Bright in exchange for shares in New Bright; and New Bright became the wholly-owned subsidiary of the Company which in turn became the holding company of the Group. Particulars of the Reorganisation are set forth under "Group reorganisation" in Appendix V to this prospectus.

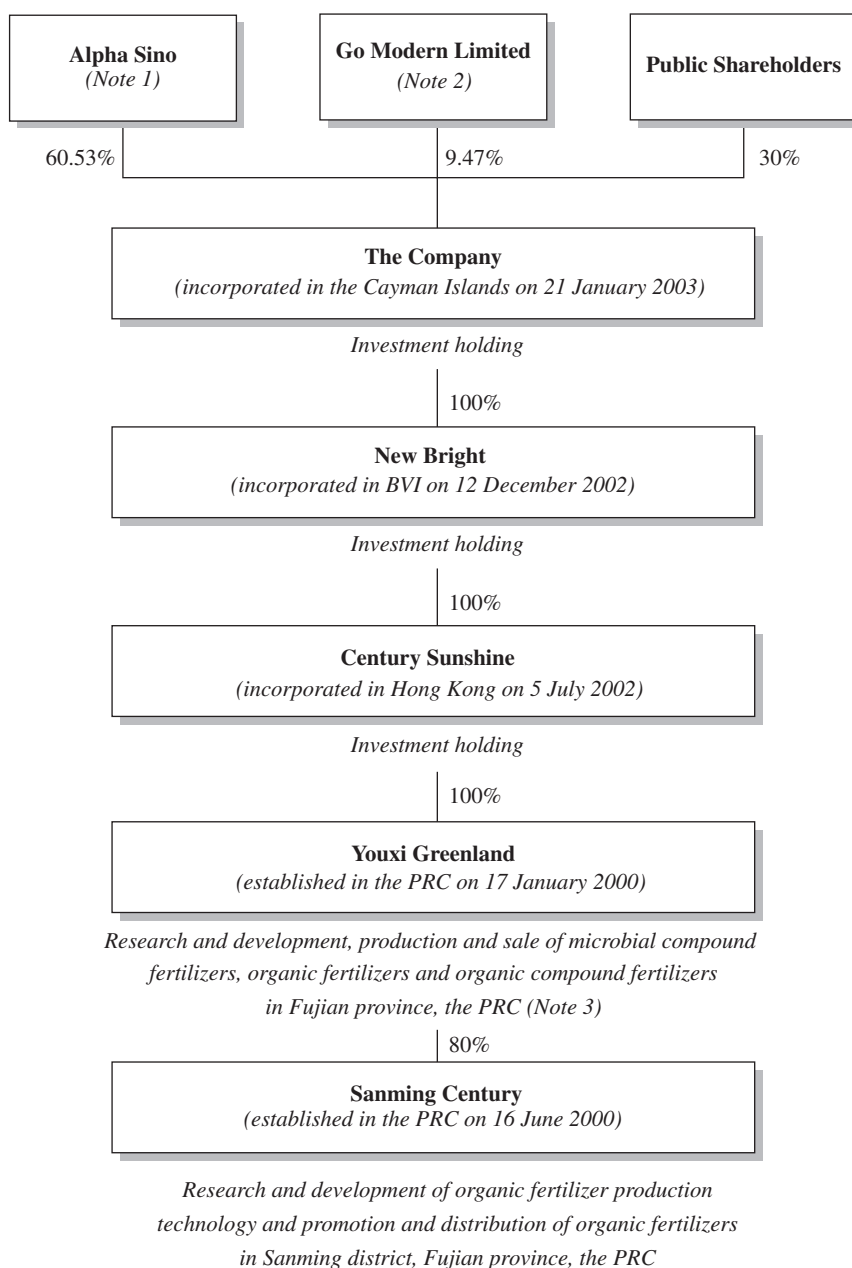
In January 2004, pursuant to the loan facility agreement, Go Modern Limited converted its loan to Mr. Chi in the amount of HK\$10,000,000 into 30,303,030 Shares at HK\$0.33 per Share. The 30,303,030 Shares will be allotted and issued to Go Modern Limited at the direction of Alpha Sino at the time of the Capitalisation Issue. Immediately prior to the Share Offer and the Capitalisation Issue, the Shareholder will be Alpha Sino only.

Go Modern Limited is owned as to 50% each by Mr. Shum and Ms. Wong. It is principally engaged in the business of manufacturing and trading of textile products in Hong Kong. Mr. Shum made the acquaintance of Mr. Chi in Fuzhou in 1978. Mr. Shum joined the Group in January 2002 as a vice president and was responsible for the Group's investment and commercial activities in Hong Kong. Go Modern Limited made its investment in the Group based on its expectation that such investment would generate financial returns in the future. Each of Mr. Shum, Ms. Wong and Go Modern Limited has confirmed that, save as disclosed in this prospectus, none of them and any of his or her or its associates has entered into any other agreement or arrangement with any members of the Group and any of their directors, substantial shareholders, management shareholders and initial management shareholders and/or their respective associates, whether directly or indirectly.

BUSINESS OF THE GROUP

SHAREHOLDING AND CORPORATE STRUCTURES OF THE GROUP

The diagram below sets forth the shareholding and the corporate structures of the Group, including their shareholders and their subsidiaries, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares that may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme):–



BUSINESS OF THE GROUP

Notes:

1. Alpha Sino is owned as to 80% by Mr. Chi and 20% by Ms. Zou, respectively. Alpha Sino, Mr. Chi and Ms. Zou are regarded as Initial Management Shareholders. Each of the Initial Management Shareholders has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that it or he or she shall not, during the Relevant Period, dispose of (or enter into any agreement to dispose of) any of its or his or her direct or indirect interest in any of the Shares and that such Shares shall be placed in escrow with an escrow agent acceptable to the Stock Exchange for the Relevant Period. Each of Mr. Chi and Ms. Zou has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that he or she shall not dispose of (or enter into any agreement to dispose of) any of his or her interests in Alpha Sino during the Relevant Period.
2. Go Modern Limited is owned as to 50% each by Mr. Shum and Ms. Wong and is principally engaged in the business of manufacturing and trading of textile products in Hong Kong. Both Go Modern Limited, Mr. Shum and Ms. Wong are regarded as Initial Management Shareholders. Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that it or he or she shall not, during the Relevant Period, dispose of (or enter into any agreement to dispose of) any of its or his or her direct or indirect interest in any of the Shares and that such Shares shall be placed in escrow with an escrow agent acceptable to the Stock Exchange for the Relevant Period. Each of Mr. Shum and Ms. Wong has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that he or she shall not dispose of (or enter into any agreement to dispose of) any of his or her interest in Go Modern Limited during the Relevant Period.
3. The remaining 20% equity interest in Sanming Century is owned by Mr. Chi Wen Qiang (池文強), a younger brother of Mr. Chi. Mr. Chi Wen Qiang did not sell his equity interest in Sanming Century to the Company during the Reorganization due to his expectation that such investment would generate good economical returns for him in the future. In order to avoid future connected transactions between the Company and Sanming Century, it is the Directors' current intention to acquire from Mr. Chi Wen Qiang his 20% equity interest in Sanming Century after the listing of the Shares on GEM. The consideration for such acquisition is to be determined based on negotiation between the Company and Mr. Chi Wen Qiang. The Company will fully comply with the applicable requirements under the GEM Listing Rules when such acquisition occurs.
4. Go Modern Limited will be allotted and issued approximately 30,303,030 Shares (representing approximately 9.47% of the entire issued share capital of the Company immediately upon listing of the Shares on GEM) pursuant to the direction of Alpha Sino at the time of the Capitalisation Issue. In December 2002, Mr. Chi and Go Modern Limited entered into a loan facility agreement pursuant to which Go Modern Limited made available to Mr. Chi a loan facility in the principal sum of HK\$10,000,000 at an interest rate of 8% per annum. Under such loan facility agreement, Go Modern Limited is entitled to convert the principal sum of the loan of HK\$10,000,000 into Shares at a price equivalent to 60% of the Offer Price prior to the Share Offer. The conversion price of 60% of the Offer Price was determined at arm's length negotiation between Mr. Chi and Go Modern Limited. The loan was subsequently drawn down by Mr. Chi in the sum of HK\$10,000,000 and thereafter, Mr. Chi in turn lent HK\$2,000,000 to each of Ms. Zou and Mr. Lin Pei Qiang, an Independent Third Party. Mr. Chi, Ms. Zou and Mr. Lin Pei Qiang then advanced HK\$6,000,000, HK\$2,000,000 and HK\$2,000,000 respectively to Century Sunshine as shareholders' loans to finance the acquisition of the Youxi Greenland for an aggregate cash consideration of approximately RMB10,500,000 representing the net asset value of Youxi Greenland as at 31 July 2002. According to the loan facility agreement, Mr. Chi is obliged to pay the interest on the loan of HK\$10,000,000 at an annual interest rate of 8%, solely on his own, in the event that Mr. Chi has not received the conversion notice from Go Modern Limited within 30 days from the completion of the Reorganisation in which the Company becomes the ultimate holding company of Century Sunshine.

BUSINESS OF THE GROUP

STATEMENT OF ACTIVE BUSINESS PURSUITS OF THE GROUP

The following are details of the Group's business pursuits for the period from 1 January 2001 to the Latest Practicable Date:–

For the financial year ended 31 December 2001

Corporate development

In March 2001, the Group's "LU DI" (綠滴) organic tea fertilizer product was certified by the OTRDC as an organic tea fertilizer. In April 2001, the Group's "LU DI" (綠滴) premium organic fertilizers and organic compound fertilizers obtained registration from the Agriculture Bureau of Fujian Province.

Following the successful development of the Group's organic fertilizer processor, the Group applied for the patent in the PRC of its organic fertilizer processor in April 2001. The patent was granted in February 2002 and is valid for a period of 10 years from the date of application.

In August 2001, the Group applied to the Fujian Trade Mark Office for the registration of its "LU DI" (綠滴) trade mark.

Production

The Group's annual production capacity of microbial compound fertilizer products and organic fertilizer products during the financial year reached 1,500 tonnes and 12,000 tonnes, respectively. With a view to cater for further increase in demand for the Group's fertilizer products, the Group entered into a subcontracting arrangement with 福建省閩侯洋溪化工廠 (Fujian Minhou Yangxi Chemical Factory), an Independent Third Party, in Fujian province, the PRC to produce organic compound fertilizer in November 2001. The Minhou plant had a production capacity of 10,000 tonnes of organic compound fertilizer products. Under this subcontracting agreement, an annual production volume of 2,000 tonnes of organic compound fertilizer products was planned.

For the financial year ended 31 December 2001, the Group produced approximately 260 tonnes of microbial compound fertilizer products and approximately 2,300 tonnes of organic fertilizer products by itself, and approximately 500 tonnes of organic compound fertilizer products by the Minhou plant. The overall production utilization rate was approximately 18%. The Group's utilization rates for microbial compound fertilizer and organic fertilizer products were approximately 17% and 19%, respectively.

BUSINESS OF THE GROUP

Sales and marketing

During the financial year, the Group sold approximately 251 tonnes of “LU DI” (綠滴) microbial compound fertilizer, approximately 1,843 tonnes of “LU DI” (綠滴) organic tea fertilizer, approximately 312 tonnes of “LU DI” (綠滴) organic compound fertilizers and approximately 80 tonnes of “LU DI” (綠滴) premium organic fertilizer.

During the financial year, the Group continued its marketing and promotion activities amongst major tea plantation districts in Fujian province, such as Wuyi Mountain (武夷山) and Fuding City (福鼎市). The Group featured major tea plantation within each tea producing district of the province that used the Group’s products with a view to demonstrate the quality of the product and effect on crop productivity to other growers and potential customers.

Promotional efforts were extended to sponsoring publication of environmental-friendly agricultural articles on a major newspaper in the PRC to promote the awareness of the businesses of the Group and the Group’s products. In addition, the Group participated in a variety of promotional forums for the tea industry within the Fujian province.

As at 31 December 2001, the Group had 12 appointed distributors in Fujian province, all of them are Independent Third Parties.

Research and development

During the financial year, the Group worked with the orchard research institute, an Independent Third Party at Yongan orchard district (永安果區) in Fujian province, for the development and joint field experiment of the Group’s “LU DI” (綠滴) organic compound fertilizers for orchards. Following the successful results of increased fruit yield using the Group’s product, the Group began the sale of “LU DI” (綠滴) organic compound fertilizer for orchards in 2001. In addition, the Group began to carry out research and development of organic fertilizer specifically for lotus plant and bamboo shoot.

In addition, Sanming Century engaged an Independent Third Party to carry out technical enhancement on the Group’s organic fertilizer processor for an aggregated payment of RMB600,000. Such amount was capitalised as intangible asset of the Group for the financial year ended 31 December 2001.

Rewards

In May 2001, the Group’s microbial compound fertilizer was awarded the “Outstanding Product” of the “The Forth PRC (Beijing) High and New Technology International Exhibition” (第四屆中國北京高新技術產業國際周暨中國北京國際科技博覽會).

In September 2001, the Group was granted by Youxi Technology Bureau a subsidy of RMB30,000 for its continuous effort on technology innovation.

BUSINESS OF THE GROUP

Staffing

As at end 2001, the Group had 65 employees, of whom 3 was involved in management, 20 in production, 9 in research and development, 28 in sales and marketing and 5 in finance and general administration.

Financing

The Group's operations during the year was mainly financed by internal generated cash flow and two bank loans with a total sum of RMB3,000,000 (approximately HK\$2,830,000). The bank loan of RMB1,000,000 was borrowed from 尤溪縣農村信用合作社聯合社 (Youxi Agriculture Credit Union) with an annual interest rate of 7.02% and was repayable before November 2002. This bank loan was secured by a corporate guarantee provided by Jia Hui. The bank loan of RMB2,000,000 was borrowed from 尤溪縣農村信用合作社聯合社 (Youxi Agriculture Credit Union) with an annual interest rate of 8.91% and was repayable before March 2002. This bank loan was secured by a corporate guarantee provided by Jia Hui. There was no security over the assets of the Group being pledged to the lending banks in respect of the above bank loans. Neither there was any security over the assets of the Group being granted to Jia Hui in respect of the corporate guarantees provided by it.

For the financial year ended 31 December 2002

Corporate development

The Group's "世紀陽光Century Shine" trademark was registered in the PRC in January 2002. In February 2002, the Group registered the patent of its organic fertilizer processor with the PRC authorities.

In July 2002, the Group filed five applications for patent registration, in relation to organic fertilizer production technologies with the National Intellectual Property Bureau of the PRC. In August 2002, the Group filed an application for patent registration in relation to an environmental friendly production method for organic fertilizers with the National Intellectual Property Bureau of the PRC.

In July 2002, in preparation for the listing of the Shares on GEM, Century Sunshine was incorporated in Hong Kong and was owned as to 60% by Mr. Chi, 20% by Ms. Zou, and 20% by Mr. Lin Pei Qiang, respectively. In October 2002, Century Sunshine became the holding company of Youxi Greenland by acquiring from Mr. Chi, Ms. Zou, and Mr. Lin Pei Qiang their respective interest in Youxi Greenland for an aggregate cash consideration of approximately RMB10,500,000 representing the net asset value of Youxi Greenland as at 31 July 2002. The respective beneficial interest of Mr. Chi, Ms. Zou and Mr. Lin Pei Qiang in Youxi Greenland immediately after the acquisition remained unchanged.

BUSINESS OF THE GROUP

In order to fulfill the payment obligation of Century Sunshine under the acquisition of Youxi Greenland, in December 2002, Mr. Chi and Go Modern Limited entered into a loan facility agreement pursuant to which Go Modern Limited made available to Mr. Chi a loan facility in the principal sum of HK\$10,000,000 at an interest rate of 8% per annum. Under such loan facility agreement, Go Modern Limited is entitled to convert the principal sum of the loan of HK\$10,000,000 into Shares at a price equivalent to 60% of the Offer Price prior to the Share Offer. The loan was subsequently drawn down by Mr. Chi in the sum of HK\$10,000,000 and thereafter, Mr. Chi in turn lent HK\$2,000,000 to each of Ms. Zou and Mr. Lin Pei Qiang, an Independent Third Party. Mr. Chi, Ms. Zou and Mr. Lin Pei Qiang then advanced HK\$6,000,000, HK\$2,000,000 and HK\$2,000,000, respectively, to Century Sunshine as shareholders' loans to finance the acquisition of Youxi Greenland for an aggregated cash consideration of approximately RMB10,500,000.

Production

As at 31 December 2002, the Group's annual production capacity reached 1,500 tonnes of microbial compound fertilizer products and 18,000 tonnes of organic fertilizer products and organic compound fertilizer products. To prepare for the further increase in demand for the Group's fertilizer products, the Group entered into another subcontracting arrangement with 羅源縣開源生物工程有限公司 ("Louyuan Kaiyuan Bio-technology Engineering Co. Ltd.") in Fujian province, which was an Independent Third Party, to produce organic compound fertilizers in January 2002. The production capacity of the Louyuan plant was 20,000 tonnes of organic compound fertilizer products. Under this subcontracting arrangement, an annual production volume of organic compound fertilizers of approximately 4,000 tonnes was planned.

For the year ended 31 December 2002, the Group produced approximately 2,000 tonnes of microbial compound fertilizer products and approximately 15,000 tonnes of organic fertilizer products by itself, and 1,000 tonnes and 6,500 tonnes of organic compound fertilizer products by the Minhou plant and the Luoyuan plant, respectively. The overall production utilization rate was approximately 87%. The Group's utilization rates for microbial compound fertilizer and organic fertilizer products were approximately 133% and 83%, respectively. The 133% utilization rate for microbial compound fertilizer products was achieved by working overtimes during the year.

The subcontracting arrangement with the Minhou plant was expired in November 2002. The Group did not renew this arrangement as its production requirements for organic compound fertilizer products were met sufficiently by the Luoyuan plant.

BUSINESS OF THE GROUP

Sales and marketing

Following marketing and promotion of the Group's fertilizer products, the Directors believe that the "LU DI" (綠滴) trademark was increasingly being recognised within the agricultural industry in Fujian province, the PRC. During the financial year, the Group sold a total of approximately 1,929 tonnes of microbial compound fertilizers and approximately 22,962 tonnes of other fertilizers, comprising approximately 13,865 tonnes of organic tea fertilizer, approximately 1,533 tonnes of premium organic fertilizer and approximately 7,564 tonnes of organic compound fertilizers.

The Group continued to promote its products in Fujian province, the PRC by strengthening training and after-sales support to its distributors and end users. For the Group's major customers, the Group provided them with additional training on the appropriate fertilizer application techniques, and the Group also examined their crops and provided technical advice and support during the crops' growth cycle. The Directors believe such services were proved to be very effective in building and strengthening customers' relationships, which attributed to the significant growth in product sales during the year.

As at 31 December 2002, the Group had 22 appointed distributors in Fujian province, all of them are Independent Third Parties.

Research and development

The Group continued to undertake research and development of organic fertilizers specifically for the lotus plant and bamboo shoot. In addition, the Group started the research and development of the following products:–

- humic acid organic fertilizer for general applications on vegetables, orchards, peanuts and etc.;
- humic acid organic fertilizer specifically for tobacco plant;
- organic compound fertilizers specifically for three types of vegetables, namely root vegetables, leaf vegetables and tomato family; and
- premium organic fertilizer specifically for flowers.

Rewards

In December 2002, the Group organic tea fertilizer product was recognized as one of the 16 development projects in 2002 by the provincial government of Fujian province, the PRC. As a result, the Company was granted a project loan interest payment subsidy of RMB300,000.

BUSINESS OF THE GROUP

Staffing

As at end 2002, the Group had 97 employees, of whom 4 was involved in management, 26 in production, 11 in research and development, 51 in sales and marketing and 5 in finance and general administration.

Financing

The Group's operations during the year was mainly financed by internal generated cash flow and two bank loans in the sum of RMB3,000,000 (approximately HK\$2,830,000). The bank loan of RMB1,000,000 that borrowed from Youxi Agriculture Credit Union was matured in November 2002 and was subsequently renewed to October 2003 with a annual interest rate of 6.59%. This bank loan was secured by a corporate guarantee provided by Jia Hui. The bank loan of RMB2,000,000 that was borrowed from Youxi Agriculture Credit Union was matured in March 2002 and was subsequently renewed to March 2003 with an annual interest rate of 7.56%. This bank loan was secured by a corporate guarantee provided by Jia Hui. There was no security over the assets of the Group being pledged to the lending banks in respect of the above bank loans. Neither there was any security over the assets of the Group being granted to Jia Hui in respect of the corporate guarantees provided by it.

For the period from 1 January 2003 to the Latest Practicable Date

Corporate development

As part of the Reorganisation in preparation for the listing, in May 2003, Mr. Chi acquired the shareholdings of Mr. Lin Pei Qiang in Century Sunshine for an aggregate consideration of HK\$2,000,000 which was determined by reference to the net asset value of Youxi Greenland as at 31 July 2002 of approximately RMB10,500,000.

In January 2004, pursuant to the loan facility agreement dated December 2002 between Mr. Chi and Go Modern Limited, Go Modern Limited converted its loan to Mr. Chi in the amount of HK\$10,000,000 into 30,303,030 Shares at HK\$0.33 per Share. The 30,303,030 Shares will be allotted and issued to Go Modern Limited at the direction of Alpha Sino at the time of the Capitalisation Issue.

Production

The Group successfully improved the production process techniques of microbial compound fertilizer resulting in significant decline in unit production cost.

To prepare for further increase in demand for the Group's organic fertilizers, the Group completed the expansion of its production capacity in June 2003 by building a second phase production facilities at the Youxi factory comprising a production line, a factory and a

BUSINESS OF THE GROUP

warehouse. The contract sum for this expansion project amounted to approximately RMB1,400,000. With the newly expanded production facilities, the Group's annual production capacity of microbial compound fertilizer products will be increased by approximately 1,500 tonnes to 3,000 tonnes and that of organic fertilizer products and organic compound fertilizer products by 2,000 tonnes to 20,000 tonnes.

Sales and marketing

The Group continued to promote its products both in Fujian province in principally three ways: first, to expand the sales team by recruiting experienced personnels; second, to establish more showcase farms with large tea farmers at each tea producing districts with a view to promote to other tea growers of "LU DI" (綠滴) fertilizers' vegetation quality and effects; and third, to expand the sales network by appointing additional distributors. As at the Latest Practicable Date, the Group had 22 appointed distributors in Fujian province, all of them were Independent Third Parties.

Research and development

The Group continued to undertake research and development of various products and technologies from the previous period. In addition, the Group started the research and development of the following products and technologies:–

- biological insecticides that could be used together with organic fertilizer products;
- soil replenish technology that maintains soil fertility so as to protect plants and ecological environment; and
- waste treatment project that turns rural or city wastes into organic fertilizers.

In addition, the Group continued to improved the extraction and production process techniques of microbial compound fertilizer resulting in further decline in unit production cost.

Rewards

In January 2003, Mr. Chi obtained the "Outstanding Young Entrepreneurs Awards of Fujian Province in 2002". Mr. Chi was also elected the Vice Chairman of the Youth Business Association of Fujian Province.

Staffing

As at the Latest Practicable Date, the Group had 103 employees, of whom 5 was involved in management, 27 in production, 11 in research and development, 53 in sales and marketing and 7 in finance and general administration.

BUSINESS OF THE GROUP

Financing

The Group's operations during the period was mainly financed by internally generated cash flow and two existing bank loans of RMB3,000,000 and one new bank loan of RMB5,000,000. The bank loan of RMB1,000,000 that was borrowed from Youxi Agriculture Credit Union was matured in October 2003. The Group repaid the loan principal of RMB200,000 in October 2003 and renewed the balance of the loan of RMB800,000 for six months to April 2004 with a annual interest rate of 6.84%. This bank loan was secured by a corporate guarantee provided by Jia Hui. The bank loan of RMB2,000,000 that was borrowed from Youxi Agriculture Credit Union was matured in March 2003 and was subsequently renewed to March 2004 with an annual interest rate of 7.2%. This bank loan was secured by a corporate guarantee provided by Jia Hui. The new bank loan of RMB5,000,000 was borrowed from China Agricultural Bank Sanming Branch (中國農業銀行三明市分行) with an annual interest rate of 6.372% and is repayable before March 2004. This bank loan is secured by a corporate guarantee provided by Fujian Sanming Shuang Lun Chemical Machinery Co., Limited (福建省三明雙輪化工機械有限公司), an Independent Third Party. There is no security over the assets of the Group being pledged to the lending banks in respect of the above bank loans. Neither there is any security over the assets of the Group being granted to Jia Hui or Fujian Sanming Shuang Lun Chemical Machinery Co., Limited in respect of the corporate guarantees provided by them.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors consider that the Group's success is attributable to the following principal factors:—

Environmental-friendly products

The Group's microbial compound fertilizer and organic fertilizer products do not contain any synthetic chemical additives which are main components of inorganic fertilizers. Prolonged application of such synthetic chemical additives would lead to deterioration of soil condition and water pollution. Unlike inorganic fertilizers, organic fertilizers, including the Group's products, may facilitate the preservation of soil fertility and the prevention of diseases on the plant. In 1998, the State Council of the PRC launched “沃土工程” (the “Rich Soil Project”) in the PRC with the objective of improving the deteriorating arable soil condition by promoting the usage of organic fertilizers. The Directors believe that the Group's products are consistent with this government policy and will contribute to the protection of the environment.

One of the few fertilizer products available in the PRC market with government recognitions

The Group's fertilizer products received recognitions from government authorities and independent organizations. As at 2 January 2003, the Group's "LU DI" microbial compound fertilizer was one of the 12 microbial compound fertilizer products registered with the Ministry of Agriculture of the PRC. As at 20 March 2003, the Group's "LU DI" (綠滴) organic tea fertilizer product was one of the four organic fertilizer products approved by OTRDC. In addition, the Group's "LU DI" (綠滴) organic tea fertilizer product is certified by BCS for its compliance with the requirements of EU Regulation No. 2092/91 "Organic Production of Agricultural Products".

Proprietary production technology

The Directors believe that, by using the Group's patented organic fertilizer processor, the Group can produce high quality organic fertilizer products in a more efficient way, in terms of production cost and the time required, as compared with other producers in the PRC. By using the Group's organic fertilizer processor, raw materials such as livestock wastes and grain bran are treated and processed together with different types of processing bacteria. With the effect of the bacterial action and by the squeezing and grinding movement stimulated by the processor, moisture can be taken out from the processing material within three to five minutes. As a result, the overall production time is reduced and hence, the production efficiency is improved.

Growing demand for organic fertilizers in the PRC

In recent years, with the increase in health awareness amongst consumers in the PRC, the demand for green food, organic food or organic plantation have increased significantly in the PRC. As reported by the Guangdong Agricultural Information Web (廣東農業信息網 www.gd.agri.gov.cn) in May 2002, the annual production of green foods in the PRC has increased from a minimal amount in 1990 to 15 million tonnes in 2000. The production of green food products further increased to 25 million tonnes in 2002, as reported in March 2003 by the China Green Food Net (中國綠色食品農網 www.greenfood.org.cn) which is under the China Green Food Development Centre. In order to expedite the development of green food industry, the Ministry of Agriculture of the PRC has set a target for the annual production of green food products to reach approximately 45 million tonnes in 2005 as reported in May 2002 by the Guangdong Agricultural Information Web. The Directors believe that the current development in the organic and green food industry will result in growing demand for organic fertilizer products in the PRC.

BUSINESS OF THE GROUP

Established sales and distribution channel

As at the Latest Practicable Date, the Group established a network of 22 appointed exclusive distributors, who are Independent Third Parties, in Fujian province in the PRC. For each of the Track Record Periods, approximately 11%, 61% and 70% of the Group's sales were conducted through these distributors, respectively. The Directors believe that the Group's sales and distribution channel is more effective than that commonly used by other fertilizer producers in Fujian province in the PRC, which are primarily distributed through local fertilizer stores. The Directors further believe that, by selling its products directly to end users either through its sales teams or appointed exclusive distributors, the Group is able to obtain information on the identity of the end users so as to establish on-going and direct business relationships with the end users by providing technical training and after-sales services.

PRODUCTS OF THE GROUP

As at the Latest Practicable Date, the Group had the following four major types of fertilizer products, all of which were developed by the Group:–

Name of the products	Usage	Approximate selling prices to the appointed distributors of the Group as at the Latest Practicable Date (RMB per tonne)
“LU DI” microbial compound fertilizer (綠滴牌複合微生物菌劑)	Microbial compound fertilizer used alone or with other organic fertilizer products for the production of organic agricultural products	9,000
“LU DI” organic tea fertilizer (綠滴牌有機茶園專用肥)	Organic fertilizer product specifically for the production of organic tea	1,000 – 1,200
“LU DI” premium organic fertilizer (綠滴(精製)有機肥)	Organic fertilizer products for the production of organic agricultural products such as orchards, vegetables, tea, bamboo, lotus etc	700
“LU DI” organic compound fertilizer (綠滴牌有機複混肥)	Organic compound fertilizer products for the production of four types of pollution-free agricultural products, including tea, vegetables and green orchards, and non-green orchards	1,200

The Group obtained all approvals required for the production and sale of its products in the PRC and has renewed such approvals as needed. The Group's “LU DI” (綠滴) microbial compound fertilizer product was first registered with the Ministry of Agriculture of the PRC on 15 February 2001 and the current registration will expire in October 2008. The Group's “LU DI” (綠滴) organic tea fertilizer product was first certified by OTRDC on 16 March 2001 and the current certification will expire on 21 July 2004. The Group's “LU DI” (綠滴) premium organic fertilizer products and the “LU DI” (綠滴) organic compound fertilizer

products were first registered with the Agriculture Bureau of Fujian province, the PRC on 15 April 2001 and the current registration will expire on 15 April 2007. The Group will renew these registrations upon expiry in accordance with the then relevant governmental regulations. The Directors do not presently foresee any difficulties in renewing such registrations upon expiry.

“LU DI” (綠滴) microbial compound fertilizer

“LU DI” (綠滴) microbial compound fertilizer products (LUDI-MCF) are produced from bacteria extracts from natural soil via bio-technology. Each gram of LUDI-MCF contains 100 million nitrogen-fixing bacteria and 50 million phosphorus-liberating and potassium-liberating bacteria each. It also contains a variety of other macro-nutrients and trace elements such as calcium, magnesium, iron, manganese, copper and zinc. Nitrogen-fixing bacteria help to release nitrate from atmospheric nitrogen into the form which can be easily absorbed by plants. Phosphorus-liberating and potassium-liberating bacteria help to break phosphate and potassium already in the soil into water soluble form which is readily available to plants. In addition, the ongoing degradation of soil organic matter by the microorganisms replenishes and maintains long-term soil fertility by providing optimal conditions for soil biological activity.

LUDI-MCF can be used either alone for a variety of plants or with other organic fertilizers.

“LU DI” (綠滴) organic tea fertilizer

“LU DI” (綠滴) organic tea fertilizer products (LUDI-OTF) are premium quality organic fertilizers specifically produced for tea growing. It contains a balanced mixture of functional bacteria and processed organic materials. The microbes in LUDI-OTF help to metabolize non-living organic matter already in the soil thereby building structure and providing a balanced supply of nutrients and trace elements in a form that is readily available to plants. The fertilizer provides the following benefits to tea plants:–

- stimulates the activity of indigenous microbes;
- aids in rooting, stress tolerance and disease management;
- contains micro and macro nutrients to buffer salts and improve the nutrient holding capacity of soils;
- provides a balanced carbon to nitrogen ratio for continuous nutrient availability and replacement of organic matter; and
- provides protection against fungi-related disease.

“LU DI” (綠滴) premium organic fertilizers

“LU DI” (綠滴) premium organic fertilizers are used for production of organic agriculture products such as orchards, crops, flowers and vegetables. The ingredients of “LU DI” (綠滴) premium organic fertilizers can be adjusted to suit different plantation applications. The organic matters contained in the fertilizer account for over 40% of the total weight of the fertilizer. “LU DI” (綠滴) premium organic fertilizers provide the following benefits to the plants:–

- increases organic composition of soil;
- improves soil structure and tilth;
- improves water preserving capacity;
- reduces soil crusting problems;
- reduces soil-erosion by wind and water; and
- stabilize the pH levels.

“LU DI” (綠滴) organic compound fertilizers

Organic compound fertilizers are a mixture of organic and inorganic fertilizers. The primary advantage of using inorganic fertilizer is that nutrients are immediately available to the plants and as such, the exact amounts of a given element can be calculated and given to plants. The disadvantage of inorganic fertilizer is that excessive applications will result in soil toxification and imbalances. The Group’s “LU DI” (綠滴) organic compound fertilizer is produced to take advantages of the benefits of both types of fertilizers. It provides following benefits to the plants:–

- increases nutrients which are immediately needed to the plants;
- increases organic composition of soil;
- improves soil biological activity;
- improves soil structure and tilth;
- reduces soil crusting problems;
- reduces soil-erosion by wind and water;
- improves water preserving capacity; and
- stabilize the pH levels.

As at the Latest Practicable Date, the Group has four types of organic compound fertilizers for application on two types of orchards, tea, and vegetables.

BUSINESS OF THE GROUP

SALES AND MARKETING STRATEGY OF THE GROUP

Sales

For each of the Track Record Periods, the Group's sales by product type were as follows:–

	Financial year ended 31 December						Eight months ended 31 August		
	2001			2002			2003		
	(tonnes)	(RMB'000)	%	(tonnes)	(RMB'000)	%	(tonnes)	(RMB'000)	%
“LU DI” (綠滴) microbial compound fertilizer	251	3,854	65	1,929	18,121	43	955	9,629	38
“LU DI” (綠滴) organic tea fertilizer	1,843	1,622	27	13,865	14,231	33	8,502	8,323	33
“LU DI” (綠滴) premium organic fertilizer	80	48	1	1,533	1,119	3	1,518	1,031	4
“LU DI” (綠滴) organic compound fertilizers	312	399	7	7,564	9,159	21	5,114	6,233	25
	<u>2,486</u>	<u>5,923</u>	<u>100</u>	<u>24,891</u>	<u>42,630</u>	<u>100</u>	<u>16,089</u>	<u>25,216</u>	<u>100</u>

The Group conducts sales through its sales team as well as through appointed distributors. For each of the Track Record Periods, approximately 89%, 39% and 30%, respectively, of the Group's sales were made to direct customers and approximately 11%, 61% and 70%, respectively of the Group's sales were made through appointed distributors. It is the Group's strategy to expand its distribution network in Fujian province through the development of appointed distributors. During the Track Record Periods, the Group's sales made through appointed distributors accounted for an increasing part of the Group's total sales following the development of the Group's network of appointed distributors. As at the Latest Practicable Date, the Group had 22 appointed distributors in Fujian province, the PRC, all are Independent Third Parties. A distributor is usually appointed to represent the Group to cover a particular district on an exclusive basis. Most of the Group's distributors are local individuals who have good understanding of agricultural production and maintain good relationships with the local farmers. Each distributor enters into a distribution agreement with the Group. Under such agreement, the distributor is responsible for building up a network of customers in his designated district under the supervision and guidance of the Group. The distributor is also responsible for setting up demonstration fields at selected customers' farms to demonstrate the Group's fertilizer products.

The Group is responsible for providing product promotional materials and technical assistance in setting up the demonstration fields. The Group charges the distributor factory prices for each type of the Group's products. The distributor is allowed to sell the Group's products to the ultimate customers at a price that is within a 5% fluctuation range of an indicative price set by the Group, to be adjusted from time to time subject to the prevailing

BUSINESS OF THE GROUP

market condition. The price difference between the factory price and the price paid by the ultimate customers is earned by the distributor. Sales targets are generally set for each distributor for each financial year. Bonus in the form of cash or goods and services such as technical training courses, with the same value are given to distributors upon achieving their set targets provided that the sales are fully settled by the distributors. For each of the Track Record Periods, no such bonus was granted to the Group's distributors. The distribution agreements are renewed every five years and the sales targets are set annually. The Group has the right to terminate the agreement should the sales targets are not met by the distributors. For the Track Record Periods, no distribution agreement was terminated by the Group.

Organic fertilizer products are usually applied during autumn and winter. Consequently, the Groups' sales tend to increase in the second half of the year, compared to the first half.

As Fujian province is one of the largest tea producing provinces in the PRC, considerable efforts have been made by the Group to promote and develop its fertilizer products amongst tea farmers. As at the Latest Practicable Date, the Group had sales staff stationed in Ningde (寧德), Nanping (南平) and Quanzhou (泉州), being the three largest tea producing districts that currently accounts for approximately 74% of total arable tea plantation area within the Fujian province, the PRC. Presently, the arable area within the Fujian province in which the Group's fertilizer products are used is estimated to be approximately 8,000 hectares, representing approximately 6% of the total tea plantation area of 131,000 hectares and only 0.6% of total arable area of approximately 1,400,000 hectares within the province. As such, the Directors believe there is significant room for growth for the Group within the Fujian province.

For the financial year ended 31 December 2001, the Group's five largest customers accounted for approximately 65% of the Group's total sales, of which 22% were made through three distributors, 36% was made to Fei Li Gao and 7% was made to Jia Hui. For the financial year ended 31 December 2002, the Group's five largest customers, all of which were the Group's distributors, accounted for approximately 39% of the Group's total sales. For the financial year ended 31 December 2002, sales made to Fei Li Gao and Jia Hui accounted for approximately 0.2% and 0.1% of the Group's total sales. For the eight months ended 31 August 2003, the Group's five largest customers accounted for 46% respectively of the Group's total sales. The Group did not make any sales to Fei Li Gao and Jia Hui during the eight months ended 31 August 2003. None of the Directors, the Initial Management Shareholders, the Significant Shareholders or their respective associates has an interest in any of the Group's customers other than Fei Li Gao and Jia Hui during the Track Record Periods.

All of the Group's sales are made in renminbi. Credit sales are generally granted to established distributors and direct customers who have maintained good relationships with the Group. In order to minimize the credit exposure of the Group, credit sales are typically made with a credit period of not more than three months and a maximum credit limit not exceeding RMB500,000 for each customer. In particular, the Group provides a credit term up to 90 days to its appointed distributors. During each of the Track Record Periods, credit sales accounted for approximately 32%, 49% and 70% of the Group's total sales respectively, and cash sales accounted for approximately 68%, 51% and 30% of the Group's total sales respectively. The increase in credit sales was mainly due to increase in the Group's sales made through its appointed distributors during the Track Record Periods. The Group has not recorded any bad

BUSINESS OF THE GROUP

debt or sales return during the Track Record Periods. For each of the Track Record Periods, the Group's trade receivable turnover days were approximately 118 days, 51 days and 57 days. The Group's gross trade receivables as at 31 August 2003 was approximately RMB6,311,000, of which approximately 44% was aged within 30 days, approximately 24% was aged between 31 days and 60 days, approximately 23% was aged between 61 days and 90 days and approximately 9% was aged between 91 days and 180 days. Such receivables were subsequently settled in full as at 31 December 2003.

An allowance for doubtful debt should be provided based upon an evaluation of the recoverability of the accounts' receivable balances as at the balance sheet date. The Directors reviewed the accounts receivable balances as at 31 December 2001 and considered no provision for accounts receivable was necessary for the year. For the year ended 31 December 2002, the Group made a provision for doubtful debt of RMB181,000, representing approximately 3% of the outstanding balance of the trade receivables as at 31 December 2002. For the eight months ended 31 August 2003, in view of the increased level of credit sales, the Group prudently raised the level of general provision for accounts receivables in an amount of RMB134,000 to RMB315,000, representing 5% of the outstanding balance of the trade receivables as at 31 August 2003.

Marketing

As at the Latest Practicable Date, the Group had a team of 53 staff responsible for the Group's sales and marketing activities. The Group's sales and marketing team work closely with its appointed distributors in Fujian province with a view to understand customers' needs and to provide technical assistance to the end users of the Group's products. The Group places great emphasis on a customer-oriented approach in marketing the Group's fertilizer products. Its sales team maintains regular contacts with its distributors and customers such as tea growers, to provide them with the latest product information and channels the customers' feedback to the Group's research team for products improvements.

With a view to promote its organic fertilizer products, the Group participates regularly in a number of tea competitions sponsored by county governments within the Fujian province. The Group also actively contributes to the seminars organized by OTRDC on the national level. In addition, the Group regularly advertises on agricultural periodicals in the PRC.

For each of the Track Record Periods, the Group's sales and marketing expenses, comprising principally advertising expenses, staff salaries and commissions, were RMB700,000, RMB3,241,000, and RMB1,691,000, respectively, representing approximately 12%, 8% and 7% of the Group's total sales for each of the Track Record Periods, respectively.

REVENUE MODEL OF THE GROUP

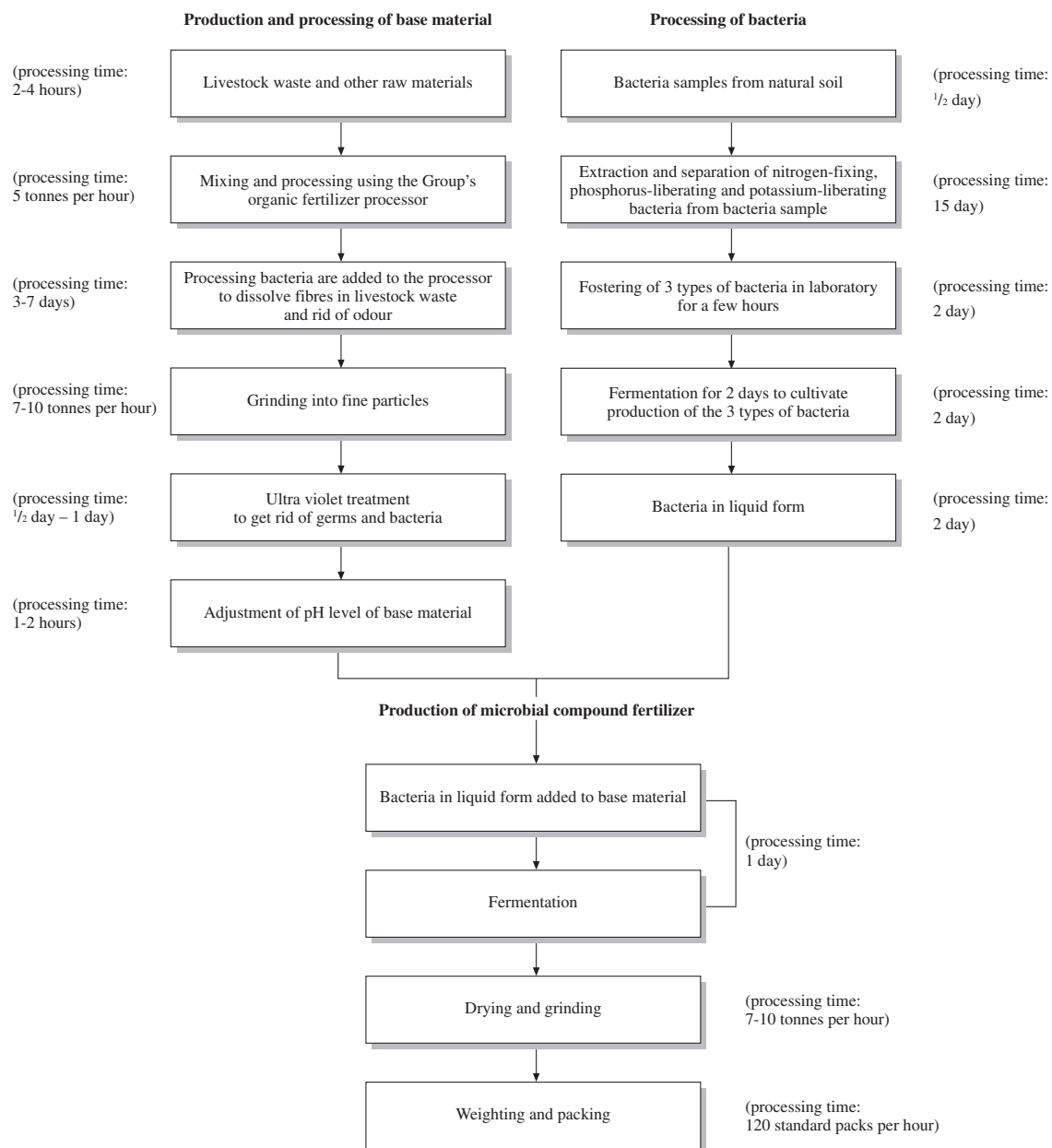
During the Track Record Periods, revenues of the Group were principally attributable to the sale of fertilizer products. Revenue was recognized in the income statement on the transfer of risks and rewards of ownership, which generally coincides with the time when the products are delivered to the customers. The Group's pricing policy is primarily determined in accordance with the market price trend. Customers of the Group are normally granted credit terms of not more than three months, depending on the credit standing of individual customers.

BUSINESS OF THE GROUP

PRODUCTION PROCESS OF THE GROUP

Production process

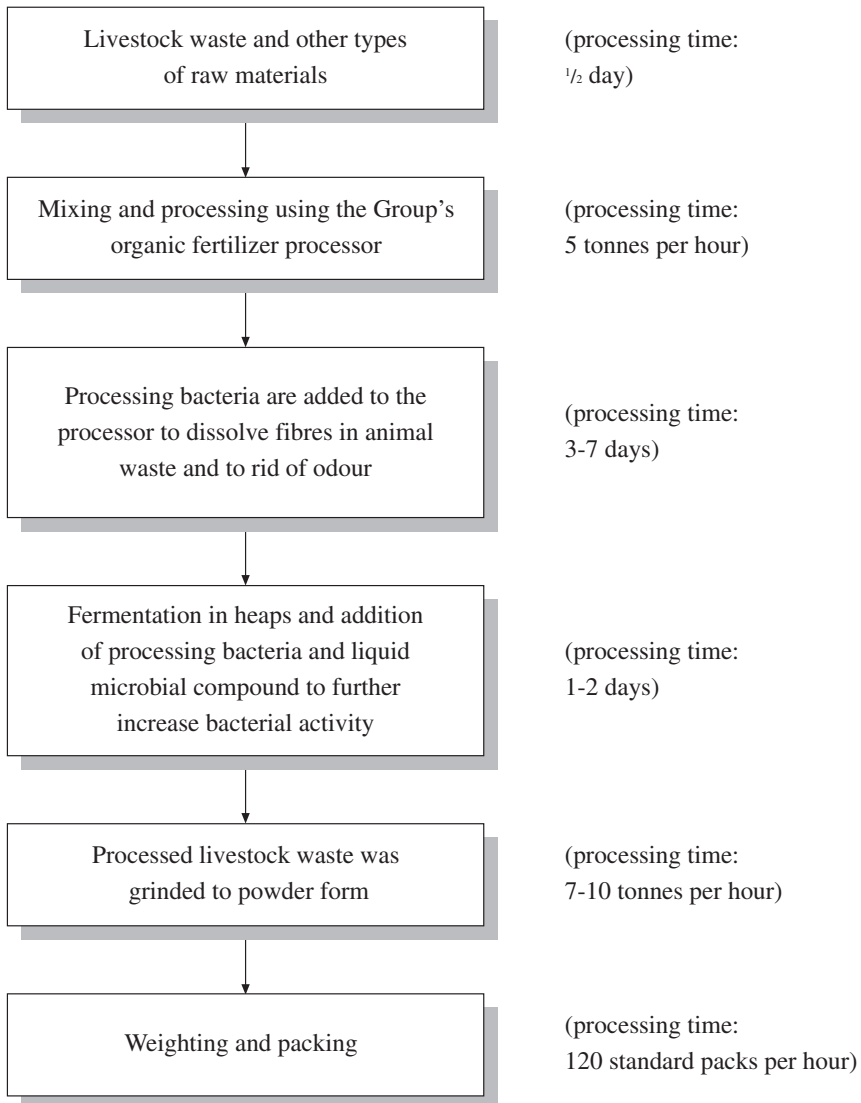
The Group's microbial compound fertilizer is produced from bacteria extracts from soil which are then incubated to produce massive quantities. Its production process, which takes about 7 days, is set out below:–



The raw materials of organic fertilizers are live stock wastes from cattle, pig or chicken farms, wastes from food manufacturing plants that has high organic contents, as well as agricultural waste. As far as the Group is concerned, the raw materials of its organic fertilizers are mainly from fresh livestock wastes from cattle farms situated near the Group's production base in the Fujian province.

BUSINESS OF THE GROUP

Fresh livestock wastes are first treated in the Group's patented organic fertilizer processor. During the process, processing bacteria and other raw materials such as grain bran and used tea leaves are mixed and stirred with livestock waste. With the effect of bacterial action and by the squeezing and grinding, moisture will be taken out within three to five minutes. The increased temperature also facilitates bacterial activity and the fermentation process. During the fermentation process, different processing bacteria were added, depending on the type of waste materials used and types of fertilizers to be produced. The whole process takes about a week and livestock waste is transformed into odourless organic fertilizer.



Production capacities and sub-contracting

As at the Latest Practicable Date, the Group's production facilities, located at Youxi, Fujian province, the PRC have an annual production capacity of approximately 3,000 tonnes of microbial compound fertilizer products and approximately 20,000 tonnes of organic fertilizers and organic compound fertilizer products. The Group leased the factory premises from the local government at Youxi for a period of 20 years commencing October 2001. The Group owns the building structures and all production facilities at this factory. The Group obtained all regulatory approvals for such production facilities.

During the Track Record Periods, to cater for the increasing market demand for its fertilizer products, the Group engaged two subcontractors, namely Fujian Minhou Yangxi Chemical Factory (福建閩侯洋溪化工廠) and Luoyuan Kai Yuan Bio-technology Engineering Co., Ltd (羅源縣開源生物工程有限公可), to produce organic compound fertilizer products. Both subcontractors are Independent Third Parties in Fujian province, the PRC. The Minhou plant is a collectively-own enterprise managed by the local Minhou County Government in Fujian Province, the PRC and is principally engaged in the production of the chemical and organic compound fertilizer products. It has an annual production capacity of 10,000 tonnes of organic compound fertilizer products. The Luoyuan plant is a company established in the PRC and is owned as to 67% by Mr. Zheng Huan Long (鄭煥龍) and 33% by Mr. Huang Zhuan De (黃專德), both are Independent Third Parties. It is principally engaged in the production of organic fertilizer and organic compound fertilizer products with an annual production capacity of 20,000 tonnes of organic compound fertilizer products. The subcontracting agreement with the Minhou plant was first entered into in November 2001 and was expired on 4 November 2002. This arrangement was not renewed as the Group's production requirements were subsequently met sufficiently by the Luoyuan plant which became a subcontractor of the Group in January 2002. The arrangement with the Luoyuan plant will expire in December 2004.

Under each of the subcontracting arrangement, the subcontractor is responsible for sourcing raw materials, such as cow manure, and the production of organic compound fertilizer products for which Youxi Greenland has agreed to pay a subcontracting charge of between RMB760–780 per tonne of the finished products, depending on the types of the organic compound fertilizer products produced. The Group is responsible for providing the processing bacteria for the production of the organic compound fertilizer products, packaging material for the finishing products and all users' instruction information. Under the subcontracting agreement, the Group has the right to inspect and analyse the finished products at the subcontractors' production facilities to ensure that their products meet the Group's requirements; failing which the Group will not accept the products. So far, no material sub-standard fertilizer products have been detected at any of the subcontracting factories.

All of the Group's microbial compound fertilizer and organic fertilizer products were produced by itself during the Track Record Periods. The processing technology required for the production of organic compound fertilizers is relatively low, therefore the Group relied on its subcontractors to produce all of its organic compound fertilizers during the Track Record Periods. The core technological know-how of producing organic compound fertilizers are retained by the Group despite the subcontracting arrangement and are not passed to the subcontractors under the subcontracting arrangement.

BUSINESS OF THE GROUP

For the year ended 31 December 2001, the Group produced approximately 260 tonnes of microbial compound fertilizer products and approximately 2,300 tonnes of organic fertilizer products by itself, and approximately 500 tonnes of organic compound fertilizer products by the Minhou plant. The overall production utilization rate was approximately 18%. The Group's utilization rates for microbial compound fertilizer and organic fertilizer products were approximately 17% and 19% respectively.

For the year ended 31 December 2002, the Group produced approximately 2,000 tonnes of microbial compound fertilizer products and approximately 15,000 tonnes of organic fertilizer products by itself, and 1,000 tonnes and 6,500 tonnes of organic compound fertilizer products by the Minhou plant and the Luoyuan plant respectively. The overall production utilization rate was approximately 87%. The Group's utilization rates for microbial compound fertilizer and organic fertilizer products were approximately 133% and 83% respectively. The 133% utilization rate for microbial compound fertilizer products was achieved by working overtimes during the year.

For the eight months ended 31 August 2003, the Group produced approximately 950 tonnes of microbial compound fertilizer products and approximately 10,000 tonnes of organic fertilizer products by itself, and approximately 5,300 tonnes of organic compound fertilizer products by the Luoyuan plant.

The Directors believe that the Group's current production capacity, including that of the Luoyuan plant, is sufficient enough to meet the current production requirements.

Production planning

The Group formulates its production plans primarily according to market demand. Monthly production plan for each fertilizer product is preliminary determined in advance by reference to sales feedback from the Group's sales and marketing team and the anticipated market demand, which is subsequently adjusted according to the actual demand and inventory level from time to time. The Group's policy is to keep one to two months of finished products and the Group had no slow moving stock during the Track Record Periods.

Quality control

The Group places significant emphasis on the product quality, particularly in respect of the production of its microbial compound fertilizer products. Under the standard set by the Ministry of Agriculture of the PRC, microbial compound fertilizer products for agricultural use must have a minimum of 200 million live bacteria per gram. Samples of finished microbial compound fertilizer products are regularly tested to ensure full compliance with the above minimum standard. Each production process is also checked by designated officers to ensure that production procedures are strictly adhered to.

BUSINESS OF THE GROUP

To ensure product quality of “LU DI” (綠滴) organic compound fertilizer products produced by its subcontractors, the Group deploys quality control staff to station at the subcontractor’s production plant to provide technical advice and to monitor the quality control procedures.

The Group’s fertilizer products can be stored for up to 12 to 18 months before they are expired. The expiry dates are printed on the packaging materials of the Group’s microbial compound fertilizer products. There is no expiry date printed on the Group’s other fertilizer products as it is not required in Fujian province, the PRC.

INVENTORY CONTROL SYSTEM ADOPTED BY THE GROUP

The Group’s inventory consists primarily of finished fertilizer products, worked-in-process and raw materials. It is the Group’s policy to produce sufficient quantities of both organic fertilizer products and microbial compound fertilizer products for one to two months’ of sales and delivery to customers. The Group’s sales and marketing team frequently monitors the usage of the Group’s products at the customers’ level and channels the feedbacks to the Group’s head office so that timely adjustments to the production requirements can be made.

The Company keeps the records of the daily movements of each inventory item in its warehouse. All stock-in items are supported by the suppliers’ delivery notes and all stock-out items are authorized by the plant manager and supported by the Company’s invoices and delivery notes. It is the Group’s policy to keep all the finished goods and raw material separately stored in boxes and bags with detailed information printed on the surface. The Group’s warehouse is safely guarded by full time staff and access is only granted to authorised employees.

At the end of each month, the Company carries out the following stocktake procedures:–

- The warehouse staff generates a complete stock list as at the last day of each month based on their internal records, including stock-in and stock-out records;
- The warehouse staff also states the conditions of the stock and lists out any damaged or obsolete inventory in the stock list; and
- The accounting manager performs full-count on stocks and compares the stock count results with the stock list and accounting records. All original documents in relation to stock-in and stock-out are checked and any differences identified are reconciled and reported. An updated stock list is then generated and copies are kept in the warehouse and filed with the accounting department.

Based on the results of the stocktake, the accounting department updates the stock ledger for the preparation of monthly management accounts. In addition, the accounting manager reconciles monthly sales to the Company’s delivery notes and invoices, and monthly purchases to the suppliers’ delivery notes as per the warehouse records.

BUSINESS OF THE GROUP

A provision for obsolete inventory should be provided based upon the conditions of inventory balances as at each balance sheet date. As at 31 December 2001, inventory balance amounted to approximately RMB1,421,000 comprising finished fertilizer products of approximately RMB790,000, work-in-process products of approximately RMB339,000 and raw materials of approximately RMB292,000. As at 31 December 2002, inventory balance amounted to approximately RMB1,847,000 comprising finished fertilizer products of approximately RMB95,000, work-in-process products of approximately RMB512,000 and raw materials of approximately RMB1,240,000. As at 31 August 2003, inventory balance amounted to approximately RMB1,957,000 comprising finished fertilizer products of approximately RMB557,000, work-in-process products of approximately RMB269,000 and raw materials of approximately RMB1,131,000. For each of the Track Record Periods, the Group's inventory turnover days were approximately 165 days, 35 days and 39 days. Given that the production process of most of the Group's fertilizer products takes about seven days to complete and that the Group's fertilizer products can be stored for up to 12 to 18 months before they are expired, the Directors consider no provision for obsolete inventory was considered necessary for each of the Track Record Periods in respect of finished fertilizer products and work-in-progress products. The Group's raw materials comprise mainly livestock, agricultural and food production wastes and processing material compound. Given that nearly all of the livestock, agricultural and food production wastes are kept for less than five days before they are processed, the Directors consider no provision for obsolete inventory was necessary for each of the Track Record Periods in respect of livestock, agricultural and food production wastes. Most of the Group's processing material compound can be stored for up to two to three years before they expire. Given that nearly all the processing material compound are kept for less than three months before they are processed, the Directors consider no provision for obsolete inventory was necessary for each of the Track Record Periods in respect of processing material compound.

RESEARCH AND DEVELOPMENT OF THE GROUP

The Directors believe that product research and development play a crucial role in its future development and success in the organic agricultural field. As at the Latest Practicable Date, the Group had a team of 11 persons engaged in research and development of new organic fertilizer products as well as the processing technologies. The Group's research and development center is headed by Professor Zhou.

The research and development of new organic fertilizer products for a particular crop includes generally five stages. First, the relevant crop is analysed and examined in order to identify its nutrients needs for growth. Second, an analysis of the composition and characteristics of the soil type and climate in the area where the crop will be grown is conducted. Third, based on the information gathered on the crop, the soil type and the climate conditions, the Group identifies the appropriate raw material mix and production process of the new organic fertilizer product. Fourth, testing of the prototype samples of the new organic fertilizer product by applying them on different types of soil in the area where the crop will be grown, together with the monitoring of the different crop samples during their respective growth cycle. Finally, an analysis and comparison of the crops grown under the different conditions will be undertaken

BUSINESS OF THE GROUP

to identify the most desirable composition of the new organic fertilizer product and its associated production process. Due to differing crop types, soil and climate conditions, the entire process of the developing a new organic fertilizer product and the associated production process could take from a few months to up to one year.

The following table sets out the development status and total expenses incurred for each of the Group's new products and technologies currently under development:–

Name of products and Technology	Date/expected date of completion (M/Y)	Expected date of launch to market (M/Y)	Total expenses during the Track Record Periods (RMB)
organic fertilizer for lotus plant and bamboo shoot	12.2003	3.2004	593,000
humic acid organic fertilizer for general applications on vegetables, orchards, peanuts and etc.	12.2003	3.2004	636,000
humic acid organic fertilizer specifically for tobacco plant	12.2003	3.2004	585,000
organic compound fertilizers specifically for three types of vegetables, namely root vegetables, leaf vegetables and tomato family	12.2003	3.2004	2,725,000
premium organic fertilizer specifically for flowers	12.2003	3.2004	133,000
biological insecticides that could be used together with organic fertilizer products	3.2004	7.2004	30,000
soil replenish technology that maintains soil fertility so as to protect plants and ecological environment	3.2004	7.2004	16,000
waste treatment project that turns rural or city wastes into organic fertilizers	3.2004	7.2004	20,000

BUSINESS OF THE GROUP

For each of the Track Record Periods, the Group's research and development costs amounted to approximately RMB1,394,000, RMB4,079,000 and RMB66,000 respectively. Of the research and development costs incurred for the financial year ended 31 December 2001, approximately RMB1,156,000 was capitalised as intangible assets. Such amount represents the aggregated research and development costs on the Group's microbial compound fertilizer product of approximately RMB727,000 and organic fertilizer for lotus plant and bamboo shoot of approximately RMB429,000. Save for the above, the Group did not capitalise any research and development costs during the Track Record Periods.

It is the Group's policy to register the above new products and technologies with the Ministry of Agriculture of the PRC as soon as they are developed.

In addition to the research and development into new products and production processes, the Group's research and development centre also provides after-sales support and training to its distributors and customers. For the Group's major customers, in addition to providing them with training on the appropriate fertilizer application techniques, the Group also examines their crops and provides specific technical advice and support during the crops' growth cycle. The Directors believe such services not only help to build and strengthen the customers' relationships, but also allow the Group to receive feedback on its products for continuous development and improvement. This is important to ensure the quality of the Group's products is continually improved, and also provides the Group with direct feedback on its new products.

RAW MATERIALS AND SUPPLIERS OF THE GROUP

The Group's fertilizer products are produced from raw materials such as livestock wastes, agricultural wastes (for example, grain bran), food production wastes (for example, tea seeds residuals from oil extraction), and processing material compound added during the production process comprising various types of bacteria and nutrients.

BUSINESS OF THE GROUP

For the Track Record Periods, the Group's raw material costs amounted to approximately RMB2,380,000, approximately RMB14,264,000, and RMB6,485,000 respectively. The composition for the raw material costs for each of the Track Record Periods were as follows:–

For the financial year ended 31 December 2001:–

Raw materials	Amount <i>(RMB'000)</i>	Percentage of total raw material cost (%)
Livestock wastes	396	16
Agricultural wastes	498	21
Food production wastes	539	23
Packaging materials	279	12
Processing material compound	668	28
	<u>2,380</u>	<u>100</u>

For the financial year ended 31 December 2002:–

Raw materials	Amount <i>(RMB'000)</i>	Percentage of total raw material cost (%)
Livestock wastes	1,632	11
Agricultural wastes	1,663	12
Food production wastes	1,701	12
Packaging materials	1,803	13
Processing material compound	7,465	52
	<u>14,264</u>	<u>100</u>

BUSINESS OF THE GROUP

For the eight months ended 31 August 2003:–

Raw materials	Amount <i>(RMB'000)</i>	Percentage of total raw material cost <i>(%)</i>
Livestock wastes	770	12
Agricultural wastes	848	13
Food production wastes	1,008	16
Packaging materials	1,005	15
Processing material compound	2,854	44
	6,485	100

Of the different types of raw materials, livestock wastes normally accounts for approximately 50% to 60% of the Group's fertilizer product in terms of weight. The kind of livestock wastes used for fertilizer production depends on the type of livestock farms close to the Group's production facility. Currently, the Group's production facilities in Youxi, Fujian province, the PRC and the Group's sub-contracting plants are close to cattle ranges, from which livestock wastes are sourced. Presently, the Group has supply arrangement with one of the cattle farms for a period of five years from September 2002 to September 2007. Under such arrangement, the Group pays a nominal consideration of around RMB3 per truckload of cattle waste. In some cases, no consideration is required to be paid. The Group, however, is responsible for transportation costs. To the livestock farms, regular removal of livestock wastes is important as dumping is prohibited under local environmental regulation. The Group's policy is to source such livestock waste that is sufficient for approximately one month of its production. The Group has never experienced any difficulty in sourcing its supply needs during the Track Record Periods. The Directors believe that the supply of livestock wastes in the Fujian province, the PRC is sufficient for the Group's current production needs, and the livestock breeding industry is under fast development in the PRC, and as such supplies of livestock wastes are abundant and are thus sufficient for the Group's future production requirement.

The Group sources agricultural wastes and food production wastes from grain farms and agricultural food production farms in Fujian province, the PRC. Grain bran is the outer covering of grain which need to be removed by sifting before grain is consumed by people. Tea seeds residuals are the residual of tea seeds after being extracted for producing food oil. The Group uses grain bran and tea seeds residuals as raw materials for production of fertilizer products for the reason that they contain rich organic matters and nutrients such as proteins and vitamins that are beneficial to plant growth. In addition, both grain bran and tea seeds

BUSINESS OF THE GROUP

residuals are agricultural production wastes with minimum economical values and abundant supply. Presently the Group has supply arrangement for grain bran and tea seeds residuals with the 村民委員會 (residents committee) of 漳州市薌城區石亭鎮下高坑村 (Zhangzhou Xiangcheng Shiting Xiagaokeng Village), an Independent Third Party in Fujian province for a period of five years commencing from 1 January 2002. Under such arrangement, the Group pays the lowest market price of the month for the two types of raw materials traded on the local grain products wholesale market at the time of delivery. During the Track Record Periods, average price for grain bran and tea seeds residuals paid by the Group were approximately RMB290 per tonne and RMB320 per tonne. The Group's policy is to source these raw materials that are sufficient for approximately one month of its production. The Group has never experienced any difficulty in sourcing these raw materials during the Track Record Periods. The Directors believe that the type of agricultural and food processing wastes used by the Group are abundant in Fujian province and are thus sufficient for the Group's present and future production requirement.

The Group sourced processing material compound and packaging materials from Jia Hui during the Track Record Periods. Processing material compound comprises different types of bacteria and nutrients. The Group's policy is to source processing material compound that are sufficient for approximately three months of its production. The Directors confirm that the Group will not source any raw material from Jia Hui after the Shares are listed on GEM. Starting in April 2003, the Group has replaced Jia Hui with another supplier, 福州寧晨貿易有限公司 (Fuzhou Ning Chen Trading Co., Ltd) which is an Independent Third Party.

For each of the two years ended 31 December 2002, purchases from Jia Hui, being the Group's largest supplier of raw materials, were approximately RMB956,000 and RMB10,685,000 respectively, accounting for approximately 39% and 66% of the Group's total purchases of raw materials respectively. For the eight months end 31 August 2003, purchases from Fuzhou Ning Chen Trading Co. Ltd., being the Group's largest supplier of raw materials, was approximately RMB2,576,000, accounting for approximately 36% of the Group's total purchases of raw materials. For each of the Track Record Periods, purchases from the Group's five largest suppliers were approximately RMB2,468,000, RMB15,842,000 and RMB7,006,000 respectively, accounting for approximately 99%, 99% and 98% of the Group's total purchases of raw materials respectively. None of the Directors, the Initial Management Shareholders, the Significant Shareholders or their respective associates had an interest in any of the Group's suppliers other than Jia Hui during the Track Record Periods.

BUSINESS OF THE GROUP

GOVERNMENT GRANTS AND SUBSIDIES TO THE GROUP

During the Track Record Periods, the Group received the following subsidies from the local government authorities:–

- In July 2000, The Group’s microbial compound fertilizer product was recognized as one of the 15 development projects in 2000 by the provincial government of Fujian province, the PRC. As a result, the Group was granted a project development subsidy of RMB100,000. The amount was received by the Group in March 2001 and was recognised in the profit and loss account as a reduction to research and development costs for the year ended 31 December 2001.
- In September 2001, the Company was granted by Youxi Technology Bureau a subsidy of RMB30,000 for its continuous effort on technology innovation. The amount was received by the Company in March 2001 and was recognised in the profit and loss account as a reduction to research and development costs for the year ended 31 December 2001.
- In December 2002, the Group’s organic tea fertilizer product was recognized as one of the 16 development projects in 2002 by the provincial government of Fujian province, the PRC. As a result, the Company was granted a project loan interest payment subsidy of RMB300,000. In May 2003, the Company received RMB120,000 of such subsidy from the relevant government authority. Such amount was recognised in the profit and loss account as a reduction to the Group’s interest expenses on bank loans for the year ended 31 December 2003. The Company expects to receive the balance of the subsidy before July 2005 and will recognise such amounts in the profit and loss account as reductions to the Group’s interest expenses on bank loans for the period.

ENVIRONMENTAL ISSUES

The Directors believe that the Group contributes to environmental protection significantly through the production of its organic fertilizer products. The Group removes livestock wastes and agricultural wastes from farms and turn them into fertilizer products that are free of gases, odors, and disease which are harmful to both livestock and humans.

The Group’s production facilities in Youxi have been certified by the 尤溪縣環境保護局 (Youxi Environmental Protection Bureau) as an environmentally friendly production facilities free of discharge of waste liquid, gas and solids. Since their establishment, none of the production facilities operated by Youxi Greenland and Sanming Century has been prosecuted or penalised for the breach of any provincial or local environmental protection laws or regulations.

Youxi Greenland is currently a member of the 福建省環境保護產業協會 (Fujian Environmental Protection Industries Association).

BUSINESS OF THE GROUP

COMPETITION

According to the latest information released by the PRC Agricultural Industry Information Website (www.agri.gov.cn) as at 2 January 2003, there are over 200 registrations of different types of organic fertilizer products registered with the Ministry of Agriculture of the PRC, among which 12 are about microbial compound fertilizer products produced by different companies and with different applications. The table below sets out the name of the respective producers, their geographic locations and applications of the products. The numbers in the table are for easy reference only:–

	Names of company	Location	Application
1.	北京新農綠業生物工程 有限責任公司 (Beijing Xinnong Luye Biotechnology Co., Ltd.)	Beijing, PRC	Cotton, flowers, etc.
2.	北戴河天豐固氮肥廠 (Beidaihe Tainfeng Nitrogen-fixing Fertilizer Factory)	Beidaihe, Hebei Province, the PRC	Watermelons, wheat, corn, etc.
3.	湛江市道弘生物固氮肥有限公司 (Zhanjiang Daohung Nitrogen-fixing Fertilizer Co., Ltd.)	Zhanjiang, Guangdong Province, PRC	Cotton, vegetables, tobacco, etc.
4.	大連施倍得生物技術有限公司 (Dalian Shipeide Biotechnology Co., Ltd.)	Dalian, Liaoning Province, PRC	Wheat, beans, tomatoes, etc.
5.	湖北襄陽綠馥欣生物工程 技術發展有限公司 (Hubei Xiangyang Lufuxin Biotechnology Development Co., Ltd.)	Xiangyang, Hubei Province, PRC	Beans, vegetables, etc.
6.	吉林市亨利生物肥業 開發有限公司 (Jilin Hengli Biological Fertilizers Development Co., Ltd.)	Jilin, Jilin Province, PRC	Beans, peanuts, corn, etc.

BUSINESS OF THE GROUP

	Names of company	Location	Application
7.	湖南農大哥科技開發有限公司 (Hunan Nongdage Technology Development Co., Ltd.)	Hunan Province, PRC	Vegetables, watermelons, tomatoes, etc.
8.	Youxi Greenland	Youxi, Fujian Province, PRC	Teas, vegetables, etc.
9.	北京中農新科生物科技有限公司 (Beijing Zhongnong Xinke Biotechnology Co., Ltd.)	Beijing, PRC	Wheat, vegetables, etc.
10.	大連中盈生物科技發展有限公司 (Dalian ZhongYin Biotechnology Development Co., Ltd.)	Dalian, Liaoning Province, PRC	Vegetables, corn, etc.
11.	深圳市芭田生態工程股份有限公司 (Shenzhen Batian Ecological Engineering Joint Stock Limited Liability Co., Ltd.)	Shenzhen, Guangdong Province, PRC	Watermelons, vegetables, etc.
12.	秦皇島領先科技發展有限公司 (Qinhuangdao Leading Technology Development Co., Ltd.)	Qinhuangdao, Hebei Province, PRC	Wheat, apple, yellow melon

All of the other 11 producers above are Independent Third Parties and none of them is based in Fujian province, the PRC.

BUSINESS OF THE GROUP

According to the latest information released by the OTRDC as at 20 March 2003, there are four manufacturers of organic tea fertilizer products approved by the OTRDC. The table below sets out particulars of these four products:–

	Names of company	Location	Registered trade mark
1.	Youxi Greenland	Youxi, Fujian Province, the PRC	綠滴牌
2.	上海長征化工廠有機肥分廠 (Shanghai Long March Chemical Factory, Organic Fertilizer Sub-factory)	Shanghai, the PRC	長征牌
3.	江山市金鷹實業有限公司 (Jiangshan Jin Ying Enterprise Co., Ltd.)	Jiangshan, Zhejiang Province, the PRC	阿姆斯特牌
4.	上海金明天源生物製品有限公司 (Shanghai Jinming Tianyuan Bio-products Co., Ltd.)	Shanghai, the PRC	天緣牌

All of the other three producers above are Independent Third Parties and none of them is based in Fujian province, the PRC.

As at 31 August 2003, there were eight organic fertilizer producers and five organic compound fertilizer producers registered with the Agriculture Bureau of Fujian province, the PRC.

The Directors believe that the Group faces competition in the following areas:–

- First, the Group's microbial compound fertilizer and organic tea fertilizer products face competition from manufacturers based in other PRC provinces. As most of the Group's products are sold in Fujian province, the PRC, the Directors believe that the Group does not compete directly in Fujian province, the PRC with other producers. The Directors also believe that the Group can enjoy benefits from low transportation costs and proximity to market and customers.
- Second, the Group's organic fertilizer and organic compound fertilizer products face competition from manufacturers based in Fujian province and other provinces in the PRC. The Group primarily sells its products through a network of appointed exclusive distributors in Fujian province, the PRC. The Directors believe that the Group's sales and distribution channel is more effective than that commonly used by other producers whose products are primarily distributed through local fertilizer stores.

BUSINESS OF THE GROUP

- Third, the Group faces competition from producers whose organic fertilizer products are not registered with the Ministry of Agriculture of the PRC or the relevant Agriculture Bureau at the provincial level. Under the current regulation, organic fertilizer products produced or distributed in the PRC need to be registered with the Ministry of Agriculture of the PRC or the relevant Agriculture Bureau at the provincial level. Nonetheless, the Directors are aware of organic fertilizer products sold in the market that are not duly registered.
- Fourth, the Group faces competition from producers of chemical fertilizer products both in the PRC and overseas. For decades, inorganic fertilizer products are widely used by farmers in the PRC. It is only until recently that, organic agricultural production has become known to farmers in the PRC. The Directors believe that as consumers' awareness of the benefits of food grown organically increases, the market for organic fertilizer products is expected to increase.

Although competition exists, the Directors believe that the Group's products have already been recognized by its users, particularly amongst tea farmers in Fujian province, the PRC. Such recognition, coupled with the Group's extensive sales and distribution network of distributors, will enable the Group to compete effectively with its competitors.

INTELLECTUAL PROPERTY RIGHTS

All the Group's fertilizer products are sold under the "LU DI" (綠滴) trade mark, which was registered with the PRC authorities in December 2002. The "LU DI" (綠滴) trade mark covers a wide range of fertilizer products including but not limited to agricultural fertilizers, animal fertilizers, compound fertilizers and plant fertilizers. In addition, the trademark of "世紀陽光Century Shine" was registered in January 2002 and covers vegetation products such as plants, vegetables, trees and seedlings. As at the Latest Practicable Date, the Group had not discovered unauthorised use of its "LU DI" (綠滴) trade mark or its "世紀陽光Century Shine" trademark in other fertilizer products.

The Group's organic fertilizer processor is also registered with the authorities in the PRC on 20 February 2002 and enjoys intellectual property right protection. In addition, the Group has filed 6 applications for patent in relation to various organic fertilizer production method and technology. Details of the Group's intellectual property rights are set out in the paragraph headed "Intellectual Property Rights of the Group" under the section headed "Further Information about the Business of the Group" in Appendix V to this prospectus.

CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions

During each of the Track Record Periods, Youxi Greenland had, in its ordinary and usual course of business and on normal commercial terms, sold to Sanming Century certain of the Group's fertilizer products at the same prices as those to the Group's appointed distributors who are Independent Third Parties. Such sales amounted to RMB2,698,000, RMB5,319,000 and RMB1,923,000, representing approximately 46%, 12% and 8% of the Group's total turnover respectively. Sanming Century is not the end-users of the Group's products. The products provided by Youxi Greenland were subsequently sold by Sanming Century directly to customers of the Group.

Sanming Century was established under the laws of the PRC as a limited liability company and its registered capital is currently owned, as to 80% by Youxi Greenland and 20% by Mr. Chi Wen Qiang (池文強), who is a brother of Mr. Chi, being an executive Director. Mr. Chi Wen Qiang is also the sole director of Sanming Century. Sanming Century is principally engaged in the research and development of organic fertilizer production technology and promotion and distribution of organic fertilizer products in Fujian province and in particular, Sanming district, Fujian province, the PRC. Sanming Century only distributes the Group's fertilizer products to its customers developed during the Track Record Periods when it conducted field-testing for new product development for Youxi Greenland. Sanming Century will not actively expand its customer base in Sanming district, nor will it distribute the Group's fertilizer products outside the Sanming district. By virtue of Rule 20.10(4) of the GEM Listing Rules, Sanming Century is an associate of Mr. Chi, who is a connected person under the same rule. Sanming Century is therefore a connected person (within the meaning of the GEM Listing Rules) and the sales of fertilizer products between Youxi Greenland and Sanming Century will constitute connected transactions for the Company under the GEM Listing Rules upon the listing of the Shares on GEM (collectively, the "Connected Transactions"). For each of the Track Record Periods, Sanming Century's net profit/(loss) amounted to approximately RMB2,519,000, (RMB1,144,000) and RMB109,000 respectively. The transactions between Sanming Century and Youxi Greenland were eliminated upon consolidation of the Group's financial accounts.

The Connected Transactions are expected to continue following the listing of the Shares on GEM. For such purpose, Youxi Greenland and Sanming Century entered into a fertilizer sales agreement (the "Fertilizer Sales Agreement") on 31 January 2004 pursuant to which Youxi Greenland agrees to supply Sanming Century the Group's products for a term of three years commencing from the Listing Date. The fees payable by Sanming Century for Youxi Greenland's products shall be determined on a case by case basis and on such terms of the purchase orders confirmed by Youxi Greenland, provided that the fees chargeable by Youxi Greenland for its products shall not be more favourable than that Youxi Greenland would charge other independent customers for the same or similar products. The Directors have confirmed that these transactions will be entered into on arm's length terms.

BUSINESS OF THE GROUP

The Directors (including independent non-executive Directors) are of the view that the Connected Transactions have been or will be entered into in the Group's ordinary course of business on normal commercial terms or on terms that are fair and reasonable so far as the Shareholders taken as a whole are concerned and are in the interests of the Group. The Sponsor, having taken into consideration the view of the Directors and based on the documents and information provided by the Group, is of the opinion that the Connected Transactions entered into between Youxi Greenland and Sanming Century were conducted on a commercial terms comparable to those applicable to third party and in ordinary course of business and were fair and reasonable so far as the interests of the independent Shareholders are concerned.

Given that the Connected Transactions will be entered into between Youxi Greenland and Sanming Century from time to time in the future on a regular basis, the Directors consider that it will not be practical to make disclosure each time immediately after any of the Connected Transactions has taken place.

In light of the above, the Company has, in accordance with the terms as set out in the section of "Waivers from strict compliance with the GEM Listing Rules and the Companies Ordinance" in the prospectus, applied to the Stock Exchange for a waiver in respect of the such transactions for a period of three financial years expiring on 31 December 2005 from strict compliance with the independent shareholders' approval and/or disclosure requirements related to connected transactions under rules 20.35 and 20.36 of the GEM Listing Rules, and the waiver have been granted by the Stock Exchange.

The Directors anticipate that the Connected Transactions will not exceed the following cap each year:–

Suggested annual cap for year ending 31 December		
2003	2004	2005
<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
5,100,000	5,800,000	6,600,000

The proposed annual caps are determined on the basis of the estimated amount of purchase orders expected to be placed by Sanming Century for each of the three years ending 31 December 2005, as indicated in the Fertilizer Sales Agreement, of not more than RMB5,100,000, RMB5,800,000 and RMB6,600,000, respectively.

Non-continuing connected transactions

During the Track Record Periods, the Group has, in the ordinary and usual course of business and on normal commercial terms, engaged in the following transactions that would constitute connected transactions pursuant to the provisions of the GEM Listing Rules. The Directors anticipate that such transactions will not be continuing after the Shares are listed on GEM.

BUSINESS OF THE GROUP

1. *Transactions with Sanming Century*

- (i) Supply of organic fertilizer processor and relevant services by Sanming Century to Youxi Greenland

In the financial year ended 31 December 2001, Sanming Century sold to Youxi Greenland an organic fertilizer processor for an amount of RMB500,000. Sanming Century subsequently provided technical enhancement services to Youxi Greenland on the organic fertilizer processor for an amount of RMB1,000,000 in the financial year ended 31 December 2001. Sanming Century owns the intellectual property right of this organic fertilizer processor. The total amount paid by Youxi Greenland to Sanming Century for the supply of organic fertilizer processor and relevant services of RMB1,500,000 represents approximately 25% of the Group's total turnover in the financial year ended 31 December 2001. Sanming Century did not provide any organic fertilizer processor and related services to Youxi Greenland for the financial year ended 31 December 2002 and the eight months ended 31 August 2003. The Directors are of the view that such transactions were conducted on normal commercial terms.

- (ii) Provision of product development services by Sanming Century to Youxi Greenland

During the Track Record Periods, Youxi Greenland had, in its ordinary and usual course of business and on normal commercial terms, engaged Sanming Century for certain product development services. Product development services were mainly laboratory testing and field testing activities for new fertilizer products under development by the Group. During each of the Track Record Periods, the product development fees paid by Youxi Greenland to Sanming Century were approximately RMB1,500,000, RMB1,000,000 and RMB nil, respectively, representing approximately 25%, 2% and nil of the Group's turnover respectively. The Directors are of the view that such transactions were conducted on normal commercial terms. In order to avoid/reduce future connected transactions, the Directors are not prepared to engage Sanming Century for its product development services following the listing of the Shares on GEM. Starting from January 2003, Youxi Greenland is capable of conducting such testing activities on its own.

2. *Transactions with Jia Hui*

Jia Hui is a company established in Fujian province, the PRC and was owned as to 45% by Ms. Chi, the elder sister of Mr. Chi, and 55% by Ms. Huang Zong Mei (黃宗梅), an Independent Third Party. Both Ms. Chi and Jia Hui are associates (within the meaning of the GEM Listing Rules) of Mr. Chi and hence, connected persons (within the meaning of the GEM Listing Rules) of the Company.

BUSINESS OF THE GROUP

Jia Hui is principally engaged in the business of distribution of a variety of commercial products including hardware, electrical products, chemical products, food and oil products, and livestock feeds in Fujian province, the PRC. During the Track Record Periods, the Group entered into the following transactions with Jia Hui:–

(i) Sales of products to Jia Hui

For each of the two years ended 31 December 2002, the Group sold to Jia Hui fertilizer products in an aggregated amount of approximately RMB420,000, RMB30,000, respectively, representing approximately 7% and 0.1% of the Group's total sales respectively. The Group did not make any sales to Jia Hui for the eight months ended 31 August 2003. The Directors are of the view that such transactions were conducted on normal commercial terms that were no less favourable than those available to other customers of the Group who were Independent Third Parties. In order to avoid/reduce future connected transactions. The Directors are not prepared to make any sales to Jia Hui following the listing of the Shares on GEM in order to avoid connected transactions.

(ii) Purchase of raw materials from Jia Hui

The Group sourced processing material compound and packaging materials from Jia Hui during the Track Record Periods. For each of the Track Record Periods, purchases from Jia Hui were approximately RMB956,000, RMB10,685,000 and RMB1,948,000 respectively, accounting for approximately 39%, 66% and 27% of the Group's total purchase of raw materials, respectively. The increase in purchase of raw materials from Jia Hui in 2002 was due to the significant increase in the Group's turnover in 2002 which resulted, in additional processing material compound and packaging materials being purchased from Jin Hui. The Directors are of the view that such purchases were conducted on normal commercial terms. The Group will source all of its raw materials from suppliers who are Independent Third Parties after the Shares are listed on GEM in order to avoid connected transactions. The Directors believe that the raw materials used by the Group have abundant supply in Fujian province, the PRC.

3. *Transactions with Fei Li Gao*

Fei Li Gao is a company established in Fujian province, the PRC and is owned as to 30% by Ms. Zou, and 70% by an Independent Third Party. Fei Li Gao is an associate (within the meaning of the GEM Listing Rules) of Ms. Zou and hence, a connected person (within the meaning of the GEM Listing Rules) of the Company. Ms. Zou is a non-executive Director and an Initial Management Shareholder. Save for her directorship in the Company, Ms. Zou is not involved, and has no plan to be involved, in the daily management and operations of any member of the Group.

BUSINESS OF THE GROUP

Fei Li Gao is principally engaged in the business of research and development, production and sale plant stimulation products, and the provision of the relevant technical and consultancy services in Fujian province, the PRC. The Directors are of the view that there is no direct competition between Fei Li Gao and Group for the following reasons: Firstly, Fei Li Gao does not research and develop any organic fertilizer products; Secondly, Fei Li Gao does not produce any fertilizer products; and Thirdly, Fei Li Gao's plant stimulation products are specifically for growing mushrooms. Such plant stimulants are not for application on soil and thus not of the same kind as the Group's fertilizer products. Save for the transactions set forth below during the Track Record Periods, Fei Li Gao did not, and is not currently engaged in the distribution of any fertilizer products. During the Track Record Periods, the Group entered into the following transactions with Fei Li Gao:—

(i) Sales of products

For each of the two years ended 31 December 2002, the Group sold to Fei Li Gao fertilizer products in an aggregated amount of approximately RMB2,148,000 and RMB72,000 respectively, representing approximately 36% and 0.2% of the Group's total sales respectively. The Group did not make any sales to Fei Li Gao during the eight months ended 31 August 2003. The Directors are of the view that such transactions were conducted on normal commercial terms that were no less favourable than those available to the other customers of the Group who were Independent Third Parties. In order to avoid/reduce future connected transactions, the Directors are not prepared to make any sales to Fei Li Gao following the listing of the Shares on GEM.

(ii) Provision of product development services by Fei Li Gao

For each of the two years ended 31 December 2002, the Group paid product development fees to Fei Li Gao in the amount of approximately RMB1,077,000 and RMB1,250,000, respectively, for the product testing activities carried out by Fei Li Gao upon the instructions from the Group. The Group did not engage Fei Li Gao for any product development services during the eight months ended 31 August 2003. The Group first engaged Fei Li Gao for laboratory testing and field testing activities in early 2001 for the reason that Fei Li Gao had the required equipment and its staff had the required experience in conducting field testing activities under the procedures required by the Ministry of Agriculture of the PRC. The Directors are of the view that such transactions were conducted on normal commercial terms. In order to avoid/reduce future connected transactions, the Directors are not prepared to engage Fei Li Gao for its product development services following listing of the Shares on GEM. Starting January 2003, Youxi Greenland is capable of conducting such testing activities on its own.

4. *Transactions with Fuzhou Ming Jiang Cultural Communication Co., Ltd*

福州名將文化傳播有限公司 (Fuzhou Ming Jiang Cultural Communication Co., Ltd.) (“Ming Jiang”) is a company established in Fujian province, the PRC and is owned as to 60% by Ms. Chi and 40% by Mr. Lin Pei Qiang, a former shareholder of Youxi Greenland. Ms. Chi and Ming Jiang are associates (within the meaning of the GEM Listing Rules) of Mr. Chi and hence, connected persons (within the meaning of the GEM Listing Rules) of the Company.

Ming Jiang is principally engaged in the business of design, production and distribution of advertising materials. During the Track Record Periods, the Group paid to Ming Jiang advertising fees in the amount of approximately RMB50,000, RMB1,209,000 and RMB259,000, respectively, for its provision of design, production and distribution of advertising materials for the Group’s fertilizer products. The Directors is of the view that such transactions were conducted on normal commercial terms, and that they will not continue following the listing of the Shares on GEM in order to avoid connected transactions. The Group will engage other advertising agencies for its business promotion needs.

The Directors (including independent non-executive Directors) are of the view that the above non-continuing connected transactions were entered into in the Group’s ordinary course of business on normal commercial terms. The Directors (including independent non-executive Directors) are also of the view that none of Jia Hui, Fei Li Gao and Ming Jiang is engaged in the businesses that are in direct competition with the Group. The Sponsor, having taken into consideration the view of the Directors and based on the documents and information provided by the Group, is of the opinion that the above non-continuing connected transactions were conducted in the ordinary course of business of the Group and on normal commercial terms, and none of Jia Hui, Fei Li Gao and Ming Jiang is engaged in the businesses that are in direct competition with the Group.

With a view to protect the Group from any possible competition from each of the Initial Management Shareholders, Jia Hui, Fei Li Gao and Ming Jiang, the Company has entered into a deed of non-competition with each of the Initial Management Shareholders, Jia Hui, Fei Li Gao and Ming Jiang. Pursuant to the deed of non-competition, *inter alia*, each of the Initial Management Shareholders, Jia Hui, Fei Li Gao and Ming Jiang undertakes to the Group that it will not engage in any businesses that shall compete with the Group.

STATEMENT OF BUSINESS OBJECTIVES

BUSINESS STRATEGY OF THE GROUP

Expansion of the Group's production capacity

Given the expected increasing demand for fertilizer products in the PRC, the Group plans to increase its production capacity in Fujian province and Jiangxi province in the PRC by establishing new production facilities.

The Group plans to build two new production facilities in the Baisha village (白沙村) of Jianou (建甌) and Anxi (安溪), Fujian province, the PRC, each with an annual production capacity of approximately 20,000 tonnes of organic fertilizer products. Jianou is close to Wuyi mountain district, one of the major tea production areas in the southern Fujian province. Anxi is a major tea production area in the southern Fujian province. These new production facilities are expected to serve the increasing demand for organic fertilizer products in Fujian province, the PRC and nearby provinces, such as Zhejiang and Guangdong provinces.

In addition, the Group plans to develop another production facility with an annual production capacity of approximately 20,000 tonnes of organic fertilizer products in Wuyuan (婺源), Jiangxi province, in the second half of 2005 to serve the demand of organic fertilizer products in Jiangxi and Anhui province, the PRC. Wuyuan is a major production area of green tea in Jiangxi province.

Upon completion of all the above production facilities, the Group's annual production capacity of organic fertilizer products and organic compound fertilizer products is expected to be increased from the current 20,000 tonnes to 80,000 tonnes. The Group also plans to gradually increase its production capacity of microbial compound fertilizers from the current 3,000 tonnes to 10,000 tonnes by building additional production facilities at the Youxi plant.

Expansion of the Group's sales and distribution channel

To cope with the Group's anticipated business expansion, eight additional sales and marketing staff were recruited by the Group in the PRC during the first half of 2003. Additional recruitment is expected for the first half of 2004. In addition, the Group will further promote the "LU DI" (綠滴) trademark through advertising. Besides, in order to improve the communications, logistics and productivity, the Group is prepared to establish computer networks connecting the Group's headquarters and production facilities with its appointed distributions.

With the view to increase the market coverage of the Group's organic fertilizer products, the Group plans to expand its operation by way of franchise arrangement in Fujian province, the PRC and in other PRC provinces to produce "LU DI" (綠滴) organic fertilizer products. This arrangement is expected to be implemented in 2005. Pursuant to this plan, the Group will supply its organic fertilizer processor and the processing bacteria to the franchisees for the production of organic fertilizers and will receive franchise fee according to the production

STATEMENT OF BUSINESS OBJECTIVES

volume. The franchisees will be responsible for the sale of the fertilizer products produced. The Group's market research showed that there are interests in such franchise arrangement in Fujian province, the PRC. The Directors confirm that, to the best of their knowledge, they are not aware of any fertilizer producers that are implementing the similar franchise arrangement in the PRC. **The Directors would like to emphasize that this proposed franchising arrangement is currently at the feasibility study stage and no details have been finalized and no franchisee has been identified. The management of the Group is not experienced in such arrangement and will seek professional advice when implementing such arrangement in accordance with the relevant laws and regulations in the PRC.**

Research and development of new organic fertilizer products and other agriculture-related environmental-friendly projects

The Group will continue the research and development of organic fertilizer products specifically for other food products, such as the lotus plants and bamboo shoots. In addition, the Group will leverage on its existing technology to explore and develop various environmental-friendly technology, such as biological insecticides for tea plantation, soil recovery technology and waste treatment project.

IMPLEMENTATION PLANS

The Company intends to implement the following business plans from the Latest Practicable Date to 31 December 2005.

From the Latest Practicable Date to 30 June 2004:–

Production:

1. Complete the construction of a new production facilities in Jianou (建甌), Fujian province, the PRC with an annual production capacity of 20,000 tonnes of organic fertilizer products (*HK\$7,000,000*).

Sales and distribution:

1. Additional marketing and advertising spending to increase market penetration of "LU DI" microbial compound fertilizer products and organic fertilizer products within the Fujian province, the PRC (*HK\$400,000*).
2. Recruit additional sales and marketing staff (*note*).

STATEMENT OF BUSINESS OBJECTIVES

- Research and development:**
1. Secure the registration of newly developed organic fertilizers with the Ministry of Agriculture of the PRC.
 2. Complete research and development of the biological insecticides for general purposes (*HK\$300,000*).
 3. Complete research and development of the soil fertility replenish technology and the city waste treatment project (*HK\$400,000*).

Note: The Directors expect that such increase in marketing staff members will be financed by internal resources and as such, no proceeds from the New Issue has been allocated for such purpose.

From 1 July 2004 to 31 December 2004:–

- Production:**
1. Commence production of organic fertilizer products at the new production facilities in Jianou (建甌), Fujian province, the PRC.
 2. Commence construction of the first phase of a new production facilities in Anxi (安溪), Fujian province which, upon completion, will have an annual production capacity of 10,000 tonnes of organic fertilizer products (*HK\$3,000,000*).

- Sales and distribution:**
1. Commence to formulate a detailed implementation plan for franchising both in Fujian and in other provinces to produce “LU DI” organic fertilizers.
 2. Installing computer system linking the Group’s head office and production facilities with its distributors for improving production and sales information flow as well as productivity (*HK\$400,000*).

- Research and development:**
1. Commence research and development of biological insecticides specifically for tea plantation (*HK\$700,000*).

STATEMENT OF BUSINESS OBJECTIVES

From 1 January 2005 to 30 June 2005:–

- Production:**
1. Commence production of organic fertilizer products at the new production facilities in the Anxi (安溪), Fujian province, the PRC
 2. Commence construction of the second phase of the Anxi plant to increase the annual production capacity by 10,000 tonnes of organic fertilizers (HK\$4,000,000).
- Sales and distribution:**
1. Additional marketing and advertising spending to increase market penetration of “LU DI” microbial compound fertilizer products and organic fertilizer products within Fujian and other PRC provinces (HK\$400,000).
 2. Implement the franchise plan in Fujian province, the PRC
- Research and development:**
1. Continue research and development of biological insecticides specifically for tea plantation (HK\$800,000).

From 1 July 2005 to 31 December 2005:–

- Production:**
1. Commence production of organic fertilizer products at the second phase of the production facilities in Anxi (安溪), Fujian province, the PRC.
 2. Complete the construction of a new production facilities in Wuyuan (婺源), Jiangxi province with an the annual production capacity of 20,000 tonnes of organic fertilizers (HK\$7,000,000).
- Sales and distribution:**
1. Additional marketing and advertising spending to increase market penetration of “LU DI” microbial compound fertilizers and organic fertilizers within the Fujian province and other PRC provinces (HK\$400,000).
 2. Implement the franchise plan in Jiangxi province, the PRC

STATEMENT OF BUSINESS OBJECTIVES

- Research and development:**
1. Complete research and development of biological insecticides for tea plantation (*HK\$800,000*).
 2. commence research and development of organic fertilizer specifically for peanuts (*HK\$1,000,000*).

BASES AND ASSUMPTIONS

General assumptions

The following summarises the general assumptions in relation to the business plans and the estimated application of net proceeds of the Group for the period to 31 December 2005:–

- there will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong and the PRC in which members of the Group carry on business or to which they sell their products or source supplies;
- there will be no material changes in the bases or rates of taxation applicable to the activities of the Group; and
- there will be no material changes in interest rates or exchange rates from those currently prevailing.

Specific assumptions

The following summarises the specific assumptions associated with the Group's current business activities in relation to the business plan and the estimated application of the net proceeds of the Group for the period to 31 December 2005:–

- there will be continued demand for the Group's organic fertilizer products in the PRC;
- the Group will not encounter any significant difficulties in the production and sales of the Group's organic fertilizers or microbial compound fertilizers;
- the Group will be able to obtain all necessary approvals from the relevant government authorities for its business operations and products; and
- the Group will not be adversely affected by any of the risk factors set out in the section headed "Risk factors" of this prospectus.

PROPOSED USE OF NET PROCEEDS FROM THE NEW ISSUE

The net proceeds from the New Issue, after deduction of the expenses payable for the New Issue, are estimated to be approximately HK\$33,000,000. The Directors currently intend to apply such net proceeds in the following manner:–

- approximately HK\$7,000,000 for the construction of a new 20,000 tonne organic fertilizer production facility in Jianou (建甌), Fujian province, the PRC. Of the HK\$7,000,000, approximately HK\$1,500,000 for land acquisition, approximately HK\$2,500,000 for construction cost, approximately HK\$2,000,000 for purchase of equipment, and approximately HK\$1,000,000 for other ancillary facilities;
- approximately HK\$7,000,000 for the construction of a new 20,000 tonne organic fertilizer production facility in Anxi (安溪), Fujian province, the PRC. Of the HK\$7,000,000, approximately HK\$1,500,000 for land acquisition, approximately HK\$2,500,000 for construction cost, approximately HK\$2,000,000 for purchase of equipment, and approximately HK\$1,000,000 for other ancillary facilities;
- approximately HK\$7,000,000 for the construction of a new 20,000 tonne organic fertilizer production facility in Wuyuan (婺源), Jiangxi province, the PRC. Of the HK\$7,000,000, approximately HK\$1,500,000 for land acquisition, approximately HK\$2,500,000 for construction cost, approximately HK\$2,000,000 for purchase of equipment, and approximately HK\$1,000,000 for other ancillary facilities;
- approximately HK\$4,000,000 for research and development of new organic fertilizer products, biological insecticides and related technologies. Of the HK\$4,000,000, approximately HK\$400,000 for the completion of the soil replenish technology that maintains soil fertility so as to protect plants and ecological environment, and the city waste treatment technology; approximately HK\$2,600,000 for the development of biological insecticides, approximately HK\$1,000,000 for the development of the new organic fertilizers specifically for peanuts;
- approximately HK\$1,600,000 for the marketing and advertising of “LU DI” (綠滴) microbial compound fertilizer products and organic fertilizer products. Of the HK\$1,600,000, approximately 80% for media advertisements and 20% for organizing product seminars in the PRC.
- approximately HK\$400,000 for the installation of a computer system linking the Group’s head office, production facilities and sales agents; and
- the balance of HK\$6,000,000 for additional working capital of the Group. Of the HK\$6,000,000, approximately 40% for financing the purchase of raw materials, approximately 17% for maintenance of existing production facilities, approximately 30% for paying salaries, approximately 13% for paying administrative expenses.

In the event that any part of the business plans of the Group does not materialise or proceed as planned or the net proceeds from the New Issue are not immediately applied for the above purposes, the Directors will evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or to hold such funding as short-term deposits with banks or financial institutions so long as the Directors

PROPOSED USE OF NET PROCEEDS FROM THE NEW ISSUE

consider it to be in the best interests of the Group and the Shareholders taken as a whole. The Group will make an appropriate announcement before any change in the business plans or the application of net proceeds from the New Issue.

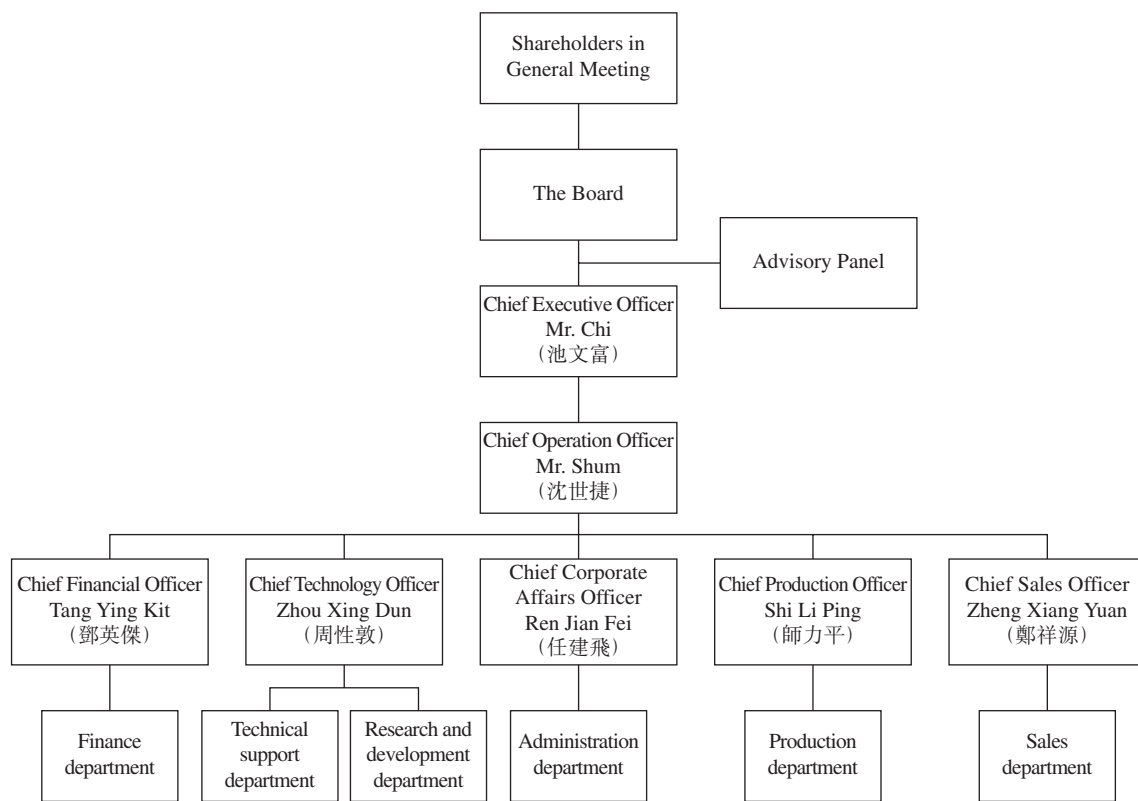
The table below sets out the timing for the application of net proceeds from the New Issue:—

Use of net proceeds from the New Issue	From the Latest Practicable Date to 30 June 2004 <i>(HK\$ million)</i>	From 1 July 2004 to 31 December 2004 <i>(HK\$ million)</i>	From 1 January 2005 to 30 June 2005 <i>(HK\$ million)</i>	From 1 July 2005 to 31 December 2005 <i>(HK\$ million)</i>	Subtotal by category <i>(HK\$ million)</i>
Construction of a new 20,000 tonne production facilities in Jianou, Fujian province in two phases	7	—	—	—	7
Construction of new 20,000 tonne production facilities in Anxi, Fujian province in two phases	—	3	4	—	7
Construction of new 20,000 tonnes production facilities in Wuyuan, Jiangxi province	—	—	—	7	7
Research and development	0.7	0.7	0.8	1.8	4
Install computer system linking the Group's head office, production facilities and sales agents	—	0.4	—	—	0.4
Marketing and advertising of “LU DI” (綠滴) microbial compound fertilizer product, and organic fertilizers	0.4	0.4	0.4	0.4	1.6
Working capital	2.0	2.0	2.0	—	6
Total	10.1	6.5	7.2	9.2	33

The Directors are of the view that the net proceeds from the New Issue and the Group's internal resources will be sufficient to finance the Group's business plans up to 31 December 2005. The above timetable of the use of the net proceeds is consistent with the Group's business objectives.

DIRECTORS, SENIOR MANAGEMENT AND STAFF OF THE GROUP

MANAGEMENT STRUCTURE OF THE GROUP



DIRECTORS

Executive Directors

CHI Wen Fu (池文富): aged 41, is the Chairman and Chief Executive Officer of the Group responsible for overall strategic direction and key operating decisions. Mr. Chi is the founder of the Group and played a leading role in developing the Group's corporate direction and strategic vision and in guiding the Group in pursuit of its corporate business and operational objectives. Mr. Chi graduated from Fujian Light Industry Technical College (福建省輕工業技術學校) in 1981 specialising in Chemical Analysis. Mr. Chi became a qualified lawyer in the PRC in 1989 and joined Fuzhou Justice Bureau Commerce Law Office (福州市司法局經濟律師事務所). Mr. Chi left Fuzhou Justice Bureau Commerce Law Office and set up a law office in Fuzhou in 1995 in which he was the managing partner. In early 1998, Mr. Chi started initial research on organic agricultural production process and funded a project on research and development of microbial compound fertilizer products. With the success in the project and a view to continue the business pursuit in organic fertilizer production, Mr. Chi established the Group in 2000. For his outstanding contribution to ecological agriculture development and environmental protection in Fujian province, Mr. Chi was rewarded the Outstanding Young Entrepreneurs Award of Fujian Province (福建省優秀青年企業家) in 2002. He is currently the Vice Chairman of the Youth Business Association of Fujian Province (福建省青年商會).

DIRECTORS, SENIOR MANAGEMENT AND STAFF OF THE GROUP

SHUM Sai Chit (沈世捷): aged 46, is the Vice President and Chief Operation Officer of the Group responsible for investment and commercial activities of the Group in Hong Kong. Mr. Shum is a graduate from Longxi Finance Training College (龍溪地區財貿幹部學校) specializing in Consumer Product Pricing Statistics. Mr. Shum joined Fujian Textiles Import and Export Corporation (福建省紡織品進出口公司) as a manager in 1984 responsible for importing and exporting of textile products. Mr. Shum moved to reside in Hong Kong in 1994 and became a permanent resident of Hong Kong in June 2001. In November 1994, Mr. Shum became a shareholder and managing director of Go Modern Limited which was principally engaged in the business of manufacturing and trading of textile products in Hong Kong. Mr. Shum joined the Group in January 2002. Both Go Modern Limited and Mr. Shum are Initial Management Shareholders.

ZHOU Xing Dun (周性敦): aged 64, is the Chief Technology Officer of the Group responsible for technical development of products and research and development of new organic fertilizer applications for the Group. Professor Zhou is also the General Manager of Sanming Century. Professor Zhou is a graduate from Beijing Geological Institute (北京地質學院), presently known as China Geological University (中國地質大學), in the PRC in 1962. Before joining the Group in January 2002, Professor Zhou was a professor at the Institute of Natural Resource and Environment of Fujian Agriculture and Forestry University (福建農林大學資源與環境學院) in the PRC. He was also a senior technical consultant of the Technology Development Center of Fujian Agriculture University (福建農業大學科技開發中心) in the PRC. Professor Zhou has over 30 years of experience in the field of geology, ecology, fertilizer and environmental protection. In February 1997, his research project on organic fertilizer production technology was awarded the bronze metal prize by Fujian Innovation Association (福建省發明協會). Professor Zhou is currently a member of the Advisory Panel of Fuzhou Municipal People's Government in relation to city waste re-utilization (福州市人民政府城市垃圾資源化利用專家顧問組顧問).

Non-executive Directors

WONG May Yuk (黃美玉): aged 61, is an Initial Management Shareholder and the Chairman of Go Modern Limited. Both Ms. Wong and Go Modern Limited are Initial Management Shareholders. Ms. Wong has over 30 years experience in garment manufacturing, trading, property development in both Hong Kong and the PRC. Ms. Wong is also the Vice Chairman of a private school, the Fuzhou Li Ming Private School (福州黎明私立學校), and a director of a public high-school, the Fuzhou Yan An High School (福州延安中學), in Fuzhou, Fujian Province, the PRC. Ms. Wong joined the Group in October 2003.

ZOU Li (鄒勵): aged 36, is an Initial Management Shareholder. Ms. Zou is a graduate from Fujian Government Departments Open University (福建省直屬機關業餘大學) in the PRC with a major in Finance. Ms. Zou has 15 years of experience in corporate accounting in the PRC. Before joining the Group in January 2000, Ms. Zou worked for Fuzhou Yinguang Factory (福州市瀛光工業綜合廠), a collectively owned enterprise in the PRC and Fujian Zhuang Zhuan Property Company Ltd. (福建壯昌房地產有限公司), a private enterprise in the PRC. Ms. Zou is not involved, and has no plan to be involved in the daily management and operations of any member of the Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF OF THE GROUP

Independent Non-Executive Directors

SHEN Yi Min (沈毅民): aged 40, is presently a partner of Fujian Zhi Li Law Office (福建至理律師事務所) in the PRC. Mr. Shen is a qualified lawyer to practise securities laws in the PRC. He is a graduate from Fudan University (復旦大學) with a major in Economics Law. Mr. Shen had been the former principal of Fujian Fuzhou Foreign Economics Law Office (福建省福州市對外經濟律師事務所). He was also appointed the legal consultant to the Fuzhou Municipal People's Government between 1994 and 1995.

CHEUNG Sound Poon (張省本): aged 42, is presently a senior manager at Chui & Kwok (CPA), an audit firm in Hong Kong. He was a senior auditor at Gary W.K. Yam & Co. (CPA), an audit firm in Hong Kong, of which he was with between June 1979 and May 1987. He then joined another audit firm in Hong Kong as an audit manager before joining Chui and Kwok. Mr. Cheung has had over 20 years of experience in auditing and accounting in Hong Kong.

Particulars of service contracts

Each of Mr. Chi, Mr. Shum and Professor Zhou has entered into a director's service agreement all dated 31 January 2004 with the Company under which each has been appointed to act as an executive Director for an initial term of three years commencing from the Listing Date, and will continue thereafter until the agreement is terminated by either party giving to the other party not less than three calendar months' notice in writing. Each of the executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 31 December 2004 at the discretion of the Board). In addition, each of the executive Directors is also entitled, in respect of the financial year ending 31 December 2004 and each financial year thereafter, to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors in respect of any financial year of the Company may not exceed 5% of the audited consolidated net profits of the Group (after taxation and minority interests and the payment of such management bonuses but before extra-ordinary and exceptional items) in respect of that financial year. An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of monthly salary, the discretionary management bonus or other benefits or allowances payable to him. The current basic annual salaries of the executive Directors are as follows:—

Name	Amount
Mr. Chi	HK\$60,000
Mr. Shum	HK\$300,000
Professor Zhou	HK\$60,000

The independent non-executive Directors have been appointed for a term of two years expiring on 30 January 2006. Save for Directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their offices as an independent non-executive Director.

ADVISORY PANEL OF THE GROUP**Functions of the Advisory Panel of the Group**

The advisory panel of the Group was appointed by the board of Directors on 10 January 2003 for a term of three years. Each of the members of the advisory panel of the Group possesses strong technical background and skills with unique expertise in the field of geology, ecology, fertilizer and environmental protection. The main reason for the appointment of the advisory panel by the Group is to provide the Group with senior consultancy services in relation to technical matters during the Group's development of organic fertilizers products and services. Each members of the Group's advisory panel is remunerated based on the nature and scope of consultancy service provided each time. There is no fixed remuneration arrangement between the Group and members of its advisory panel.

Members of Advisory Panel of the Group

GE Cheng (葛誠): aged 63, is the Chairman of the advisory panel of the Group. Mr. Ge is currently retired, but was specialized in the field of biological nitrogen-fixing research. His research papers received two awards from the Ministry of Agriculture of the PRC. Because of his outstanding contribution to the PRC agricultural technology, Mr. Ge was also granted a special government allowance by the State Council of the PRC in October 1993.

WU Xun (吳洵): aged 65, currently retired. Before retiring, Mr. Wu served as the chief technical officer of the OTRDC. Since graduating from Beijing Agriculture University (北京農業大學), presently known as China Agriculture University (中國農業大學) in 1961 with a major in soil agricultural chemistry (土壤農業化學), Mr. Wu has worked at the OTRDC for 42 years. Mr. Wu's research works on fertilizers won a number of awards from the Ministry of Agriculture of the PRC and the Chinese Academy of Agricultural Sciences (中國農業科學院土肥所). He is currently a member of the Chinese Organic Agricultural Technology Advisory Commission (中國有機農業技術諮詢委員會).

ZHANG Yan Xuan (張艷璇): aged 46, is a research analyst at Fujian Academy of Agricultural Sciences (福建省農業科學研究院). Since her graduation from Fuzhou Agricultural College (福州農業專科學校) in 1979, Ms. Zhang has worked at Fujian Academy of Agricultural Sciences (福建農業科學研究院) for 24 years. Her research works won a number of awards in Fujian province, the PRC Fujian. She obtained her PhD degree from 日本北海道大學 in 2002. For her outstanding contribution to the PRC agricultural technology, she was rewarded the special government allowance by the State Council of the PRC in June 2001.

DIRECTORS, SENIOR MANAGEMENT AND STAFF OF THE GROUP

CHEN Rong Bing (陳榮冰): aged 53, is the principal of the Tea Research Institute of Fujian Academy of Agricultural Sciences (福建省農業科學研究院茶葉研究所). Mr. Chen has 26 years of experience in the field of tea plantation. He is also a part-time professor at Fujian Agricultural and Forestry University (福建農林大學). For his outstanding contributions to the PRC agricultural technology, Mr. Chen was rewarded the special government allowance by the State Council of the PRC in June 2002.

SUN Wei Jiang (孫威江): aged 39, is an assistant professor and the principal of the Tea Study School of Fujian Agriculture and Forestry University (福建農林大學) in the PRC. Professor Sun graduated from Fujian Agriculture Institute (福建農學院), presently known as Fujian Agriculture and Forestry University, in 1985 with a Bachelor degree. He obtained a Master's degree in Tea Study from Fujian Agriculture and Forestry University in 1998. Since his graduation in 1985, Professor Sun has been working at the Fujian Agriculture and Forestry University focusing on lecturing and scientific research. His research paper on tea production technology won the third prize award from Fujian provincial government in 1997. His production technology for pollution-free tea was accredited by Fujian provincial government in 2001. His book titled "Pollution-free Tea" (無公害茶葉) was published in the PRC in 2001. Professor Sun is currently a standing committee member of Fujian Tea Association (福建省茶葉學會).

SENIOR MANAGEMENT OF THE GROUP

REN Jian Fei (任建飛): aged 44, is the Vice President and Chief Corporate Affairs Officer responsible for the overall corporate activities of the Group including public relations and communications management of the Group. Mr. Ren graduated from Fujian Economic Management Officials College (福建經濟管理幹部學院) with a major in Politics in July 1987. He also completed a postgraduate study course at the Postgraduate School of Xiamen University (廈門大學) with a major in Business Administration in January 1998. Before joining the Group in January 2000, he was an executive at a large manufacturer of agriculture-related raw material products in the PRC responsible for administration of corporate activities.

SHI Li Ping (師力平): aged 47, is the Vice President and Chief Production Officer responsible for microbe processing and fertilizer production of the Group. Mr. Shi is a graduate from the Artillery College of the PRC Liberation Army (中國人民解放軍炮兵學院) specialising in Artillery Military Affairs. In 1999, he was the general manager of a production plant of Chaoda Modern Agriculture Group (超大現代農業集團) in Fuzhou. He is experienced in agriculture products production management.

ZHENG Xiang Yuan (鄭祥源): aged 36, is the Vice President and Chief Sales Officer of the Group responsible for product sales and marketing. He is a graduate from Zhongshan University (中山大學) in the PRC with a Bachelor degree in Law. Before joining the Group in January 2000, he was the marketing manager and special assistant to the general manager of Fujian Sanjiang Group in the PRC. He is experienced in marketing and product distribution in Fujian province, the PRC.

DIRECTORS, SENIOR MANAGEMENT AND STAFF OF THE GROUP

LIU Lian Ya (劉聯雅): aged 29, is the Deputy Chief Technology Officer of the Group responsible for microbe extraction and production, and research and development of microbial fertilizer production technologies. He holds a Bachelor's degree in Bio-chemical Engineering from Zhejiang University (浙江大學) in the PRC. Mr. Liu was involved in the initial research and development project of microbial compound fertilizer in early 1998. Prior to joining the Group in October 1999, he was a technician at 福州抗生素集團公司 (Fuzhou Antibiotic Group) in the PRC and was experienced in organic fertilizer products development and production.

ZHAO Hua (趙華): aged 39, is the Finance Manager of the Group. She is a graduate from Jiangxi Broadcasting and Television University (江西廣播電視大學) in the PRC with a major in Accounting. She became a qualified accountant in the PRC in October 1994. Prior to joining the Group in January 2000, she worked as accountant at a number of companies in the PRC including Guangzhou Yafang Co., Ltd. Nanchang Branch (廣州雅芳有限公司南昌公司) and Guangdong Huizhou Dayawan Investment Co., Ltd. (廣東惠州大亞灣投資發展總公司) and is experienced in corporate accounting management.

LUO Sheng Long (羅勝龍): aged 32, is a Project Manager of the Group. He is a graduate from Fujian Agriculture University (福建農業大學) with a major in Green Nursery (園藝). He was promoted to the position of assistant agricultural technician (農藝師) in the PRC in February 2000. Prior to joining the Group in May 2000, he worked at the agricultural production technologies promotion centre (福建省清流縣農業技術推廣站) in Qing Liu County, Fujian province, responsible for providing technical support to farmers in relation to agricultural production.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

TANG Ying Kit (鄧英傑): aged 30, is the Chief Financial Officer and Company Secretary of the Group. Prior to joining the Group in April 2003, he served as the finance manager with Guangdong Assets Management Limited and Guangdong Enterprise (Holdings) Limited for a total of 5 years. He has a Bachelor degree in Business Administration in Finance from the Hong Kong University of Science and Technology and is an associate member of the Hong Kong Society of Accountants and a member of the Association of Chartered Certified Accountants.

COMPLIANCE OFFICER

Mr. Shum assumes responsibility for acting as the Group's compliance officer, including advising on and assisting the Board in implementing procedures to ensure that the Group complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF OF THE GROUP

AUDIT COMMITTEE OF THE BOARD

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary responsibilities of the audit committee are (i) to review the annual report and accounts, half-yearly report and quarterly reports and provide advice and comments thereon to the Board and (ii) to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising the two independent non-executive Directors, namely Mr. Shen Yi Min and Mr. Cheung Sound Poon, and an executive Director, Mr. Shum. Mr. Cheung Sound Poon will serve as the Chairman of the audit committee.

STAFF

As at Latest Practicable Date, the Group had a total staff of 103 full-time employees, of whom four were based in Hong Kong and the remaining staff based in the PRC. A breakdown of the number of staff of the Group by function is as follows:-

Functions	Hong Kong	PRC
Management	2	3
Production	–	27 (Note 1)
Research and development	–	11
Sales and marketing	–	53
Finance and accounting	1	2
General administration	1	3
	<u>4</u>	<u>99</u>

Note:

1. Youxi Greenland's staff (23 in total) are categorised under production function.

Labour relations

The Directors believe that the Group maintains good relations with its staff and has not encountered any major difficulties in its recruitment and retention of staff. There has never been any interruption to the Group's operations due to labour disputes in the past.

Retirement benefit scheme

The Group operates the Mandatory Provident Fund (“MPF”) Scheme, a defined contribution scheme operated by an independent trustee, for its Hong Kong employees. The Group contributes 5% of the employees’ relevant income each month as defined in the MPF Schemes Ordinance, subject to a maximum of HK\$1,000 per person.

The Group participated in the defined contribution retirement schemes as required by the relevant laws and regulations in the PRC. The Group had no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

For each of the Track Record Periods, the aggregate amount of the Group’s contributions to the aforementioned pension schemes were approximately RMB117,000, RMB273,000 and RMB152,000, respectively.

Share Option Scheme

Pursuant to the resolutions of the sole Shareholder dated 31 January 2004, the Company has conditionally adopted the Share Option Scheme whereby selected participants may be granted options to subscribe for Shares as incentives or rewards for their contributions to the Group and any entity in which any member of the Group holds any equity interest. The Directors consider that the adoption of the Share Option Scheme will also assist the Group in the recruitment and retention of high calibre executives and employees. The principal terms of the Share Option Scheme are summarised under “Share Option Scheme” in Appendix V to this prospectus.

INITIAL MANAGEMENT SHAREHOLDERS, SIGNIFICANT SHAREHOLDERS AND THE SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of Shares which may be taken up under the Share Offer or issued pursuant to any options that may be granted under the Share Option Scheme, the following persons or companies are the Initial Management Shareholders:–

Name	Number or attributable number of Shares held or interested immediately following completion of the Share Offer and the Capitalisation Issue	Approximate percentage or attributable percentage of Shareholding immediately following completion of the Share Offer and the Capitalisation Issue
Alpha Sino (<i>Note 1</i>)	193,696,970	60.53%
Mr. Chi (<i>Note 1</i>)	154,957,576	48.42%
Ms. Zou (<i>Note 2</i>)	38,739,394	12.11%
Go Modern Limited (<i>Note 3</i>)	30,303,030	9.47%
Mr. Shum (<i>Note 3</i>)	15,151,515	4.735%
Ms. Wong (<i>Notes 3 & 4</i>)	15,151,515	4.735%

Notes:

1. Alpha Sino is owned as to 80% by Mr. Chi and 20% by Ms. Zou, respectively. Alpha Sino, Mr. Chi and Ms. Zou are regarded as Initial Management Shareholders. Each of the Initial Management Shareholders has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that it or he or she shall not, during the Relevant Period, dispose of (or enter into any agreement to dispose of) any of its or his or her direct or indirect interest in any of the Shares and that such Shares shall be placed in escrow with an escrow agent acceptable to the Stock Exchange for the Relevant Period. Each of Mr. Chi and Ms. Zou has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that he or she shall not dispose of his or her interests in Alpha Sino during the Relevant Period.
2. Ms. Zou is beneficially interested in 20% of Alpha Sino and a non-executive Director. Ms. Zou is not involved, and has no plan to be involved, in the daily management and operations of any member of the Group.
3. Go Modern Limited is owned as to 50% each by Mr. Shum and Ms. Wong. Both Go Modern Limited, Mr. Shum and Ms. Wong are regarded as Initial Management Shareholders. Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that it or he or she shall not, during the Relevant Period, dispose of (or enter into any agreement to dispose of) any of its or his or her direct or indirect interest in any of the Shares and that such Shares shall be placed in escrow with an escrow agent acceptable to the Stock Exchange for the Relevant Period. Each of Mr. Shum and Ms. Wong has severally undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that he or she shall not dispose of his or her interest in Go Modern Limited during the Relevant Period.
4. Ms. Wong is beneficially interested in 50% of Go Modern Limited and a non-executive Director.

INITIAL MANAGEMENT SHAREHOLDERS, SIGNIFICANT SHAREHOLDERS AND THE SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

UNDERTAKINGS FROM THE INITIAL MANAGEMENT SHAREHOLDERS

Each of the Initial Management Shareholder has undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that:–

- (i) it or he or she will place its or his or her Relevant Securities (as defined in the GEM Listing Rules) in escrow with an escrow agent acceptable to the Stock Exchange on such terms as are acceptable to the Stock Exchange for the Relevant Period;
- (ii) for the Relevant Period, it or he or she shall not (save as provided under the GEM Listing Rules) dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its or his or her direct or indirect interest in his or its Relevant Securities; and
- (iii) in the event that it or he or she pledges or charges any direct or indirect interest in its or his or her Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange (if any) pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the Relevant Period, it or he or she must inform the Company and the Sponsor immediately thereafter and disclose the details of such pledge or charge, including the number and class of securities being pledged or charged and any other relevant details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and it or he or she must inform the Company and the Sponsor immediately in the event that it or he or she has pledged or charged any interest in Relevant Securities and it or he or she receives indications, either verbal or written, from any pledgee or chargee that any Relevant Securities pledged or charged by it or him or her will be disposed of. Upon the Company being informed of any matter as aforesaid, the Company must forthwith notify the Stock Exchange and publish an announcement giving details of the same in accordance with Rule 17.43 of the GEM Listing Rules.

In addition, each of Mr. Chi, Ms. Zou, Mr. Shum and Ms. Wong, has undertaken to the Company, the Sponsor, the Joint Lead Managers and the Stock Exchange that, save as permitted under the GEM Listing Rules, during the Relevant Period, he or she shall not dispose of (or enter into any agreement to dispose of) any of his or her respective interests in Alpha Sino and Go Modern Limited, respectively.

INITIAL MANAGEMENT SHAREHOLDERS, SIGNIFICANT SHAREHOLDERS AND THE SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, save as disclosed above, immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of Shares which may be taken up under the Share Offer or issued pursuant to any option that may be granted under the Share Option Scheme, there are no other Shareholders being regarded as the Significant Shareholders.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of Shares which may be taken up under the Share Offer or issued pursuant to any options that may be granted under the Share Option Scheme, the following persons or companies are able, or are deemed to be entitled, to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company:—

Name	Number or attributable number of Shares held or interested immediately following completion of the Share Offer and the Capitalisation Issue	Approximate percentage or attributable percentage shareholding immediately following completion of the Share Offer and the Capitalisation Issue
Alpha Sino (<i>Note 1</i>)	193,696,970	60.53%
Mr. Chi (<i>Note 2</i>)	154,957,576	48.42%
Ms. Zou (<i>Note 2</i>)	38,739,394	12.11%
Go Modern Limited (<i>Note 2</i>)	30,303,030	9.47%

Notes:

1. The entire issued share capital of Alpha Sino is beneficially owned as to 80% and 20% by Mr. Chi and Ms. Zou, respectively.
2. Go Modern Limited will be allotted and issued approximately 30,303,030 Shares (representing approximately 9.47% of the entire issued share capital of the Company immediately upon listing of the Shares on GEM) pursuant to the direction of Alpha Sino at the time of the Capitalisation Issue. In December 2002, Mr. Chi and Go Modern Limited entered into a loan facility agreement pursuant to which Go Modern Limited made available to Mr. Chi a loan facility in the principal sum of HK\$10,000,000 at an interest rate of 8% per annum. Under such loan facility agreement, Go Modern Limited is entitled to convert the principal sum of the loan of HK\$10,000,000 into Shares at a price equivalent to 60% of the Offer Price prior to the Share Offer. The conversion price of 60% of the Offer Price was determined at arm's length negotiation between Mr. Chi and Go Modern Limited. The loan was subsequently drawn down by Mr. Chi in the sum of HK\$10,000,000 and thereafter, Mr. Chi in turn lent HK\$2,000,000 to each of Ms. Zou and Mr. Lin Pei Qiang, an Independent Third Party. Mr. Chi, Ms. Zou and Mr. Lin Pei Qiang then advanced HK\$6,000,000, HK\$2,000,000 and HK\$2,000,000, respectively, to Century Sunshine as shareholders' loans to finance the acquisition of the Youxi Greenland for an aggregate cash consideration of approximately RMB10,500,000 representing the net asset value of Youxi Greenland as at 31 July 2002. According to the loan facility agreement, Mr. Chi is obliged to pay the interest on the loan of HK\$10,000,000 at an annual interest rate of 8%, solely on his own, in the event that Mr. Chi has not received the conversion notice from Go Modern Limited within 30 days from completion of the Reorganisation in which the Company becomes the ultimate holding company of Century Sunshine.

SHARE CAPITAL OF THE COMPANY

<i>Authorised:</i>	<i>HK\$</i>
<u>1,000,000,000 Shares</u>	<u>100,000,000</u>
<i>Shares issued and to be issued, fully paid or credited as fully paid:–</i>	
17,000,000 Shares in issue	1,700,000
223,000,000 Shares to be issued under the Capitalisation Issue	22,300,000
<u>80,000,000 Shares to be issued pursuant to the New Issue</u>	<u>8,000,000</u>
<u>320,000,000 Shares</u>	<u>32,000,000</u>

The above table assumes that the Share Offer and the Capitalisation Issue have become unconditional. In addition, it takes no account of any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued under the general mandate to allot and issue new Shares (see below) or which may be repurchased by the Company pursuant to the repurchase mandate (see below).

The minimum level of public float to be maintained by the Company at all times after listing, as required under Rule 11.23(1) of the GEM Listing Rules, is 25% of its share capital in issue from time to time.

RANKING

The Offer Shares will rank equally with all Shares in issue or to be issued as mentioned in this prospectus save for the entitlement under the Capitalisation Issue, and will qualify for all dividends or other distributions declared, made or paid in respect of a record date after the date of this prospectus.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set forth under “Share Option Scheme” in Appendix V to this prospectus.

SHARE CAPITAL OF THE COMPANY

GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

Subject to the Share Offer and the Capitalisation Issue becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares in the share capital of the Company with a total nominal amount of not more than the sum of:–

1. 64,000,000 Shares, representing 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue; and
2. the aggregate nominal value of the share capital of the Company repurchased by the Company (if any) under the authority referred to under “General Mandate to repurchase Shares” below.

The Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement or any options that may be granted under the Share Option Scheme.

This mandate will expire:–

- at the conclusion of the Company’s next annual general meeting; or
- at the expiration of the period within which the Company is required by any applicable law of the Cayman Islands or the Articles to be held; or
- when varied or revoked or varied by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer and Capitalisation Issue becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal amount of not more than 32,000,000 Shares, representing 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue.

SHARE CAPITAL OF THE COMPANY

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

This mandate will expire:–

- at the conclusion of the Company’s next annual general meeting; or
- at the expiration of the period within which the Company is required by any applicable law of the Cayman Islands or the Articles to be held; or
- when varied or revoked or varied by an ordinary resolution of the Shareholders in a general meeting,

whichever is the earliest.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

As at close of business on 31 December 2003, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of the prospectus, the Group had outstanding short-term bank loans of RMB7,800,000 and an aggregate amount of RMB3,266,000 due to Shareholders. Of the short-term bank loans of RMB7,800,000, RMB2,800,000 were secured by corporate guarantees provided by Jia Hui; and RMB5,000,000 was secured by a corporate guarantee provided by Fujian Sanming Shuang Lun Chemical Machinery Co., Limited (福建省三明雙輪化工機械有限公司), an Independent Third Party. There is no security over the assets of the Group being granted to Jia Hui or Fujian Sanming Shuang Lun Chemical Machinery Co., Ltd in respect of the corporate guarantees provided by them. Therefore, the corporate guarantees provided by Jia Hui are exempted from reporting, announcement and independent shareholders' approval requirement in accordance with Rule 20.52(2) of the GEM Listing Rules. It is the Group's intention to release Jia Hui from these corporate guarantees and replace them with the corporate guarantee of the Company upon the listing of the Shares on GEM.

Subsequent to 31 December 2003, the amount due to Shareholders of RMB3,266,000 were capitalised.

Contingent liabilities

As at 31 December 2003, the Group had no material contingent liabilities.

Mortgages and charges

As at 31 December 2003, the Group had no mortgages or charges over its assets.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the close of business on 31 December 2003.

FINANCIAL INFORMATION

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December 2003, being the latest practicable date for the purpose of ascertaining financial information prior to the printing of the prospectus, the Group had net current assets of approximately RMB18,044,000. Current assets as at that date comprised net trade receivables of approximately RMB9,304,000, inventories of approximately RMB3,705,000, other current assets of approximately RMB11,729,000 and cash and bank balances of approximately RMB4,654,000. Current liabilities as at that date comprised short-term bank loans of RMB7,800,000, trade payables of approximately RMB39,000 and other current liabilities of approximately RMB3,509,000.

Borrowings and banking facilities

As at 31 December 2003, the Group had bank borrowings of RMB7,800,000 which were repayable within a year.

Capital commitment

As at 31 December 2003, the Group had outstanding authorized and contracted capital commitments of approximately RMB605,000 in respect of the acquisition of fixed assets and expansion of production facilities.

Prior to completion of the Share Offer and the Capitalisation Issue, the Group's investment and operations were financed primarily by internal resources, equity financing and bank borrowings. It is expected that the net proceeds raised by the New Issue will be sufficient to meet the future operating and capital expenditure requirements.

The Directors have confirmed that save for the capitalisation of the amount due to Shareholders as aforesaid, there has not been any material change in the indebtedness, capital commitment and contingent liabilities of the Group since 31 December 2003.

Disclosure relating to Rules 17.15 to 17.21 of the GEM Listing Rules

The Group did not advance any money to any entity which exceeded 25% of the Group's audited consolidated net tangible assets as at the Latest Practicable Date, did not provide any financial assistance and guarantees to affiliated companies that exceeded 25% of the Group's audited consolidated net tangible assets as at the Latest Practicable Date, did not have any pledge over the Shares by the controlling shareholder to secure debts, guarantees or support of other obligations of the Group, and did not enter into any loan agreements importing specific performance obligations on the controlling shareholder.

The Directors confirmed that, as at the Latest Practicable Date, the Group was 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.

FINANCIAL INFORMATION

TRADING RECORD OF THE GROUP

The following, except for the basic earnings per Share, is a summary of the combined audited results of the Group for the Track Record Periods. This summary has been prepared on the basis that the existing structure of the Group had been in existence throughout the years/periods under review and should be read in conjunction with the accountants' report, the text of which is set forth in Appendix I to this prospectus:–

	<i>Note</i>	Financial year ended 31 December		Eight months ended 31 August	
		2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	<i>1</i>	5,923	42,630	22,475	25,216
Microbial compound fertilizers		3,854	18,121	8,290	9,629
Organic fertilizers					
Organic tea fertilizers		1,622	14,231	9,915	8,323
Premium organic fertilizers		48	1,119	537	1,031
Sub-total		1,670	15,350	10,452	9,354
Organic compound fertilizers		399	9,159	3,733	6,233
Cost of sales		(3,140)	(19,177)	(11,334)	(12,005)
Gross profit		2,783	23,453	11,141	13,211
Distribution and selling expenses		(700)	(3,241)	(2,023)	(1,691)
General and administrative expenses		(1,433)	(2,702)	(1,955)	(1,851)
Research and development costs		(108)	(4,079)	(1,139)	(66)
Operating profit		542	13,431	6,024	9,603
Finance costs		(269)	(230)	(175)	(170)
Profit before taxation		273	13,201	5,849	9,433
Taxation		–	(11)	–	(28)
Profit after taxation		273	13,190	5,849	9,405
Minority interests		(504)	226	195	(22)
(Loss)/profit attributable to shareholders		<u>(231)</u>	<u>13,416</u>	<u>6,044</u>	<u>9,383</u>
Dividends		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per Share – basic	<i>2</i>	<u>(0.096) cents</u>	<u>5.59 cents</u>	<u>2.52 cents</u>	<u>3.91 cents</u>

FINANCIAL INFORMATION

Notes:

1. Turnover represents revenue generated from the sales of microbial compound fertilizer products, organic fertilizer products (which include organic tea fertilizers and premium organic fertilizers) and organic compound fertilizer products.
2. The calculation of basic earnings per Share for each of the Track Record Periods is based on the (loss)/profit attributable to Shareholders during the relevant financial years/periods and 240,000,000 Shares deemed to be in issue throughout the Track Record Periods.

ACCOUNTANTS' REPORT FOR THE TWO FINANCIAL YEARS PRECEDING THE DATE OF THIS PROSPECTUS

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Group during the three preceding years including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Group for three financial years immediately preceding the issue of the prospectus.

Pursuant to section 5(3) of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (L.N. 76 of 2001), all references to "3 preceding years", "3 financial years" and "3 years" in paragraph 27 and 31 of the Third Schedule of the Companies Ordinance are substituted by a reference to "2 preceding years", "2 financial years" and "2 years", respectively, for a prospectus issued in relation to an application for listing of securities on GEM.

Pursuant to Rule 7.03(1) and 11.10 of the GEM Listing Rules, a new applicant is required to include in the prospectus its financial results covering at least two financial years immediately preceding the issue of the prospectus.

The accountants' report for each of the two financial years ended 31 December 2002 and the eight months ended 31 August 2003 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued shortly after 31 December 2003, the accountants' report has not been prepared for the full financial year ended 31 December 2003 as it would be unduly burdensome for the Group to do so.

In the circumstances, an application has been made to the Securities and Futures Commission ("SFC") for a Certificate of Exemption from strict compliance with paragraph 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2003 in the prospectus and a Certificate of Exemption has been granted by the SFC on the ground that full compliance with paragraph 27 and 31 of the Third Schedule of the Companies Ordinance would be unduly burdensome.

FINANCIAL INFORMATION

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2003 in the prospectus and waiver has been granted by the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31 August 2003 and they are not aware of any event which would materially affect the information shown in the accountants' report of the Group, the text of which is set forth in Appendix I to this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF TRADING RECORD

For the financial year ended 31 December 2001

Turnover

The turnover of the Group was approximately RMB5,923,000 for the financial year ended 31 December 2001.

During the financial year, sales of microbial compound fertilizer were approximately RMB3,854,000, accounting for approximately 65% for the financial year ended 31 December 2001. Sales of organic tea fertilizer products were approximately RMB1,622,000 accounting for approximately 27% of the Group's total turnover for the financial year ended 31 December 2001. Sales of premium organic fertilizer products were RMB48,000 accounting for approximately 1% of the Group's total turnover for the financial year ended 31 December 2001 while sales of organic compound fertilizer products were RMB399,000 accounting for approximately 7% of the Group's total turnover for the financial year ended 31 December 2001.

During the financial year, the Group's trade receivable turnover days was approximately 118 days and the Group's inventory turnover days was approximately 165 days.

Gross profit

During the financial year, the gross profit of the Group was approximately RMB2,783,000, representing a gross profit margin of approximately 47%.

Operating expenses

The Group's operating expenses mainly include distribution and selling expenses, general and administrative expense and research and development costs. The total operating expenses of the Group was approximately RMB2,241,000 in 2001 of which distribution and selling expenses was approximately RMB700,000, general and administrative expenses was approximately RMB1,433,000, and the gross research and development costs was approximately RMB1,394,000 of which RMB1,156,000 was capitalised as intangible assets and RMB130,000 was deducted against the government grants.

FINANCIAL INFORMATION

Finance costs

The Group's finance costs include interest on bank loans. The finance costs of the Group were approximately RMB269,000 in 2001.

Taxation

No provision for the PRC income tax was made for the financial year ended 31 December 2001 as Youxi Greenland had no taxable profit, after offsetting prior year tax losses.

Sanming Century incurred no income tax as it had no taxable profit for the financial year ended 31 December 2001.

Loss attributable to Shareholders

As a result of the foregoing, the combined loss attributable to the Shareholders of the Group for the financial year ended 31 December 2001 was approximately RMB231,000.

For the financial year ended 31 December 2002

Turnover

The turnover of the Group increased by approximately 620% from approximately RMB5,923,000 in 2001 to approximately RMB42,630,000 in 2002. The turnover of the Group comprised the income from the sale of the Group's four types of fertilizer products. The increase in turnover was primarily due to satisfactory sales response as a result of the Group's marketing efforts, including offering samples with a value in approximately RMB507,000 and technical trainings to farmers in major tea plantation districts in Fujian province. With satisfactory productivity resulting from the trial application of the Group's fertilizer products, the farmers increased their purchase orders substantially to apply the Group's products in full scale. In addition, sales in 2002 increased substantially following the launch of three new products in January 2002 being the three types of organic compound fertilizers specifically for tea, vegetables and orchards respectively.

Sales of microbial compound fertilizer increased by approximately 370% from approximately RMB3,854,000 in 2001 to approximately RMB18,121,000 in 2002. Sales of the Group's organic tea fertilizers increased by approximately 777% from approximately RMB1,622,000 in 2001 to approximately RMB14,231,000 in 2002. Starting from a relatively low base, sales of the Group's premium organic fertilizer increased by approximately 22 times from approximately RMB48,000 in 2001 to approximately RMB1,119,000 in 2002. Sales of the Group's organic compound fertilizers increased by approximately 22 times from approximately RMB399,000 in 2001 to approximately RMB9,159,000 in 2002.

FINANCIAL INFORMATION

In terms of sales breakdown by products, as shown in the table below, microbial compound fertilizer and organic tea fertilizer are the most important products of the Group, accounting for approximately 43% and 33% of the Group's total turnover, respectively. The Group's organic compound fertilizers and premium organic fertilizer accounted for approximately 21% and 3% of the Group's total turnover, respectively.

The table below shows the breakdown of the Group's total turnover by product for the two years ended 31 December 2002:—

	Financial year ended 31 December					
	2001			2002		
	(tonnes)	(RMB'000)	%	(tonnes)	(RMB'000)	%
“LU DI” (綠滴) microbial compound fertilizer	251	3,854	65	1,929	18,121	43
“LU DI” (綠滴) organic tea fertilizer	1,843	1,622	27	13,865	14,231	33
“LU DI” (綠滴) premium organic fertilizer	80	48	1	1,533	1,119	3
“LU DI” (綠滴) organic compound fertilizers	312	399	7	7,564	9,159	21
	<u>2,486</u>	<u>5,923</u>	<u>100</u>	<u>24,891</u>	<u>42,630</u>	<u>100</u>

During the financial year, the Group's trade receivable turnover days was approximately 51 days and the Group's inventory turnover days was approximately 35 days.

Gross profit

The gross profit of the Group increased by approximately 743% from approximately RMB2,783,000 in 2001 to approximately RMB23,453,000 in 2002. The increase was primarily due to the overall increase in sales of the Group's fertilizer products. Gross profit margin increased by approximately 8% from 47% in 2001 to 55% in 2002. Such increase was mainly due to the reduction in the production costs of microbial compound fertilizer as a result of enhancement made to the organic fertilizer processor which resulted in the production time of the base materials are shortened. Microbial compound fertilizer is used as processing bacteria in the production of the Group's organic fertilizer products.

Operating expenses

The Group's operating expenses mainly included distribution and selling expenses, general and administrative expenses and research and development costs. The total operating expenses of the Group increased by approximately 347% from approximately RMB2,241,000 in 2001 to approximately RMB10,022,000 in 2002.

FINANCIAL INFORMATION

Distribution and selling expenses increased by approximately 363% from approximately RMB700,000 in 2001 to approximately RMB3,241,000 in 2002. The increase was mainly due to the increases in advertising costs by approximately RMB2,000,000, salary and commission paid to the Group's sales team by approximately RMB500,000 and transportation costs by approximately RMB700,000.

Research and development costs of the Group increased by approximately 193% from a gross amount of approximately RMB1,394,000 in 2001 to approximately RMB4,079,000 in 2002. The increase was due to the increased research and development activities, details of which are set forth under the section headed "Statement of active business pursuits" in this prospectus. The Group's research and development staffs increased from 9 in 2001 to 11 in 2002.

General and administrative expenses of the Group increased by approximately 89% from approximately RMB1,433,000 in 2001 to approximately RMB2,702,000 in 2002. The increase was mainly due to the increased salary costs and consultancy fee by approximately RMB700,000 following the substantially increased business volume of the Group.

Finance costs

The Group's finance costs included interest on bank loans. The outstanding bank loans of the Group remained at RMB3,000,000 from the previous year. The finance costs decreased by about 14% from approximately RMB269,000 in 2001 to approximately RMB230,000 in 2002. The decrease was mainly due to the decline in average interest rates by approximately 2% from 9% in 2001 to 7% in 2002.

Taxation

Youxi Greenland, the Group's key operating company, was exempted from income tax under PRC tax rules and regulations for the financial year ended 31 December 2002.

Sanming Century incurred an income tax of approximately RMB11,000 for the financial year ended 31 December 2002.

Profit attributable to Shareholders

As a result of the foregoing, the combined profit attributable to the Shareholders of the Group for the financial year ended 31 December 2002 was approximately RMB13,416,000, as compared with the loss of RMB231,000 for the financial year ended 31 December 2001.

For the eight months ended 31 August 2003

Turnover

The turnover of the Group was approximately RMB25,216,000 for the eight months ended 31 August 2003, representing an increase of approximately 12% from the same period in 2002. Such increase was primarily due to increased demand for the Group's products from farmers in Fujian province.

FINANCIAL INFORMATION

During the period, sales of microbial compound fertilizer increased by approximately 16% from approximately RMB8,290,000 in 2002 to approximately RMB9,629,000 in 2003. Sales of the organic tea fertilizers decreased by approximately 16% from approximately RMB9,915,000 in 2002 to approximately RMB8,323,000 in 2003. Such decline was primarily due to the fact that certain customers of the Group replaced their purchase orders for organic tea fertilizers with premium organic fertilizers in order to balance the nutrients of soil during the period. Sales of premium organic fertilizers increased by approximately 92% from approximately RMB537,000 in 2002 to approximately RMB1,031,000 in 2003. Sales of organic compound fertilizers increased by approximately 67% from RMB3,733,000 in 2002 to RMB6,233,000 in 2003.

The following table shows the breakdown of the Group's turnover by product for the eight months ended 31 August 2002 and 2003:–

	Eight months ended 31 August					
	2002			2003		
	(tonnes)	(RMB'000)	%	(tonnes)	(RMB'000)	%
Microbial compound fertilizers	883	8,290	37	955	9,629	38
Organic tea fertilizers	9,586	9,915	44	8,502	8,323	33
Premium organic fertilizers	790	537	2	1,518	1,031	4
Organic compound fertilizers	3,084	3,733	17	5,114	6,233	25
Total Turnover	14,343	22,475	100	16,089	25,216	100

During the period, the Group's trade receivable turnover days was approximately 57 days and the Group's inventory turnover days was approximately 39 days.

Gross profit

During the period, the gross profit of the Group was approximately RMB13,211,000, representing a gross profit margin of approximately 52%. The gross profit margin for the eight months ended 31 August 2003 is higher than that of the same period in 2002 of approximately 50%. Such increase was principally attributable to the decline in the price of certain raw materials during the period. The gross profit margin for the period is lower than the average gross margin in 2002 of 55% due to the fact that the Group's production economy of scale is usually optimized in the last quarter of a year when the Group's turnover usually records the highest turnover. As the production volume increases, the Group's average cost of sales per unit decreases which would result in higher gross profit margin.

Operating expenses

The Group's operating expenses mainly included distribution and selling expenses, general and administrative expenses and research and development costs. The total operating expenses of the Group was approximately RMB3,608,000 for the eight months ended 31 August 2003, representing a decline of approximately 29% from the same period in 2002.

Distribution and selling expenses amounted to approximately RMB1,691,000, representing a decline by approximately 16% from the same period in 2002. The decline was primarily due to decrease in the Group's advertising cost during the period. The Group

FINANCIAL INFORMATION

postponed the launch of the advertising plan from the first half of the year to the last quarter of the year due to outbreak of severe acute respiratory syndrome (SARS).

Research and development costs amounted to approximately RMB66,000, representing a decline by approximately 94% from the same period in 2002. Such decline was primarily due to the fact that most of the Group's new products under development are in their final stages with most of the development costs already incurred in the previous year. The Directors estimated that research and development costs for the four months ended 31 December 2003 to amount to approximately RMB1,900,000. Such costs will be primarily for the field-testing activities for the Group's new products to be carried out in the winter seasons.

General and administrative expenses amounted to approximately RMB1,851,000, representing a decline by approximately 5% from the same period in 2002. Such decline was primarily due to decrease in advisory fees paid to the Group's advisory panel.

Finance costs

The Group's finance costs included interest on bank loans. The finance costs of the Group was approximately RMB170,000 for the eight months ended 31 August 2003, which was at approximately the same level as the same period in 2002.

Taxation

Youxi Greenland was exempted from income tax under PRC tax rules and regulations for the eight months ended 31 August 2003.

Sanming Century incurred an income tax of approximately RMB28,000 for the eight months ended 31 August 2003.

Profit attributable to Shareholders

As a result of the foregoing, the combined profit attributable to the Shareholders of the Group for the eight months ended 31 August 2003 was approximately RMB9,383,000, representing an increase of approximately 55% from the same period in 2002.

TAXATION

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the Track Record Period.

The PRC enterprise income tax

Youxi Greenland's fertilizer products are produced from raw materials such as agriculture and livestock wastes. Pursuant to the Notice of Certain Preferential Treatment Policies in Relation to Enterprise Income Tax (Cai Shui Zi 1994001) (《關於企業所得稅若干優惠政策的通告》財稅字1994001號文) (the "Preferential Treatment Policies") published by the State Taxation Bureau and the Ministry of Finance of the PRC, Youxi Greenland is entitled to the

FINANCIAL INFORMATION

exemption of PRC enterprise income tax of 33%. According to a written approval from Youxi Local Taxation Bureau, Youxi Greenland is exempted from enterprise income tax for the year ended 31 December 2002. No PRC enterprise income tax was provided for the year ended 31 December 2001 as Youxi Greenland had no taxable profit, after offsetting tax loss resulted from prior year.

Youxi Greenland became a wholly foreign-owned enterprises in the PRC in October 2002. Under the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (the “PRC Income Tax Law”) which came into effect on 1 July 1994, wholly foreign-owned enterprises in the PRC are subject to a 30% national income tax and a 3% local income tax. Wholly foreign-owned enterprises in the PRC engaged in the production having a period of operation of not less than 10 years are exempted from tax for the first two profit-making years and a 50% relief of the income tax payable for the three years thereafter. However, under the Implementation Rules of the PRC Income Tax Law, these enterprises will be entitled to such preferential tax treatment only if an application has been made to, and approved by, the relevant PRC local tax authorities. Youxi Greenland’s application for preferential tax treatment under the PRC Income Tax Law was approved by Fujian Youxi State Taxation Bureau (福建省尤溪縣國家稅務局) on 26 February 2003. Youxi Greenland is entitled to exemption of the PRC enterprise income tax for the first two profitable years starting 2003 and will be subject to a preferential income tax rate of 18% for the next three profitable years thereafter. Such preferential treatment is not subject to annual review.

Sanming Century is subject to the PRC enterprise income tax at a rate of 27%.

The PRC value added tax

Pursuant to the Notice of Exemption of Value Added Tax in Relation to Certain Agricultural Production Materials (Cai Shui (2001) No. 113) (《關於若干農業生產資料徵免增值稅政策的通知》(財稅(2001)113號)) published by the State Taxation Bureau and the Ministry of Finance of the PRC, Youxi Greenland and Sanming Century are exempted from the PRC value added tax.

DIVIDENDS

The Directors expect that in future, interim and final dividends (if any) will be paid in or about November and July of each year. Interim dividends will normally represent approximately 25% of the expected total dividends for 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 earnings, financial condition, cash requirements and availability, the provisions of relevant laws and all other relevant factors.

FINANCIAL INFORMATION

PROPERTY INTEREST

Property interest rented and occupied the Group in Hong Kong

The Group rents and occupies an office unit at Room 2807, China Resources Building, No. 26 Harbour Road Wanchai, Hong Kong. The property is occupied by the Group for office purpose. The Group entered into a tenancy agreement for two years commencing 1 September 2002.

Property interest rented and occupied the Group in PRC

The Group rents and occupies a factory compound and its open adjacent land in Tuan Jie Village, Youxi County, San Ming City, Fujian Province, the PRC. The property is occupied by the Group for production purpose. The Group entered into a tenancy agreement for twenty years commencing from 20 October 2001.

The Group also rents and occupies a classroom situated on the 2nd Floor, Block 33, The Party School of the PRC Communist Party of San Ming City Committee, Dong An New Village, Lie Dong, Mei Lie District, San Ming City, Fujian Province, the PRC. The property is occupied by the Group for office purpose. The Group entered into a tenancy agreement for two years commencing from 1 January 2002 and expired on 31 December 2003. The Group subsequently renewed the tenancy agreement for three years commencing from 1 January 2004.

Particulars of the Group's property interests are set out in Appendix III to this prospectus.

Property Valuation

Midland Surveyor Limited, the independent valuer, had valued the property interests of the Group as at 31 December 2003. Details of the valuation report prepared by Midland Surveyor Limited are set forth in Appendix III to this prospectus.

PROFIT ESTIMATE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (Note 1)

The Directors estimate that, in the absence of unforeseen circumstances, the combined profit after taxation and minority interests of the Group for the financial year ended 31 December 2003, will not be less than RMB19,610,000 (equivalent to approximately HK\$18,500,000). Such estimate is based on the audited combined profit after taxation and minority interests of the Group of approximately RMB9,383,000 for the eight months ended 31 August 2003 and the unaudited combined profit after taxation and minority interests of the Group of approximately RMB10,227,000 for the four months ended 31 December 2003. The total estimated profit of approximately RMB10,227,000 for the four months ended 31 December 2003 accounted for approximately 52% of the total estimated profit of RMB19,610,000 for the financial year ended 31 December 2003. This is generally consistent with the Group's earning pattern in 2002 in which the net profit for the four months ended 31 December 2002

FINANCIAL INFORMATION

accounted for approximately 55% of the total net profit for the financial year ended 31 December 2002. Such earning pattern is as a result of the traditional farming practices in the PRC in which the Group's customers usually purchase and apply large quantities of fertilizer products in autumn and winter. The estimated profit of RMB19,610,000 represents approximately 46% increase from 2002. Such increase is primarily attributable to the expected increase in demand for the Group's fertilizer products as a result of both the Group's marketing efforts and the increasing awareness of the farmers in Fujian province about utilization of organic fertilizers for agricultural production.

The Directors were not aware of any extraordinary items which had arisen as of the Latest Practicable Date.

Estimated combined profit after taxation

and minority interests (*Note 2*) not less than RMB19,610,000
equivalent to approximately HK18,500,000

Estimated earnings per Share

(a) weighted average (*Note 3*)HK\$0.077
(b) pro forma fully diluted (*Note 4*)HK\$0.058

Notes:

1. The New Shares will rank *pari passu* in all respects with all other Shares in issue and to be issued as mentioned herein and, in particular, will rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus except for the Capitalisation Issue.
2. The bases on which the estimated combined profit after taxation and minority interests has been prepared and are set out in Appendix II to this prospectus. The Directors are not aware of any extraordinary items which arose for the year ended 31 December 2003.
3. The calculation of the estimated earnings per Share on a weighted average basis is based on the estimated combined profit after taxation and minority interests of the Group for the year ended 31 December 2003 and the weighted average number of 240,000,000 Shares in issue during the year, but takes no account of any Shares which may fall to be issued pursuant to the exercise of options that may be granted under the Share Option Scheme or 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 referred to under "Written resolutions of the sole Shareholder passed on 31 January 2004" in Appendix V to this prospectus.
4. The calculation of the estimated earnings per Share on a pro forma fully diluted basis is based on the estimated combined profit after taxation and minority interests of the Group for the year ended 31 December 2003 assuming that the Company had been listed since 1 January 2003 and a total of 320,000,000 Shares have been in issue during the year, but takes no account of any Shares which may fall to be issued pursuant to the exercise of options that may be granted under the Share Option Scheme or 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 referred to under "Written resolutions of the sole Shareholder passed on 31 January 2004" in Appendix V to this prospectus.
5. The exchange rate assumed for the above calculation is HK\$1 = RMB1.06.

The text of the letters from PricewaterhouseCoopers, the reporting accountants of the Company, and from the Sponsor in respect of the profit estimate is set out in Appendix II to this prospectus.

FINANCIAL INFORMATION

WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities and the estimated net proceeds of the New Issue, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

The Company had no reserves available for distribution to its Shareholders as at 31 December 2003 as the Company had not carried on any business since its incorporation except for a reorganization as described in paragraph headed “Group reorganisation” under the section headed “Further information about the Company and its subsidiaries” in Appendix V to this prospectus.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 31 August 2003 as shown in the accountants’ report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:–

	<i>HK\$’000</i>
Audited combined net assets of the Group as at 31 August 2003	20,633
<i>Less:</i> intangible assets of the Group as at 31 August 2003	(2,137)
	<hr/>
Audited combined net tangible assets of the Group as at 31 August 2003	18,496
Unaudited profit after taxation and minority interests of the Group for the four months ended 31 December 2003	9,648
Capitalisation of an aggregate amount due to Shareholders (<i>Note 3</i>)	3,081
Estimated net proceeds of the New Issue (<i>Note 1</i>)	33,000
	<hr/>
Adjusted net tangible assets following listing	<u>64,225</u>
	<hr/>
Adjusted net tangible asset value per Share (<i>Note 2</i>)	<u>HK\$0.20</u>

Notes:

1. The estimated net proceeds from the New Issue is based on the Offer Price.
2. The adjusted net tangible asset value per Share is arrived at based on a total of 320,000,000 Shares expected to be in issue immediately following completion of the Share Offer and the Capitalisation Issue, but takes no account of any Shares which may fall to be issued pursuant to the exercise of options that may be granted under the Share Option Scheme.
3. An aggregate amount due to two Shareholders, Mr. Chi and Ms. Zou.

FINANCIAL INFORMATION

4. The Group does not own any properties and as such, there is no surplus or deficit arising from the revaluation of the Group's land use rights or buildings.
5. The exchange rate assumed for the above calculation is HK\$1 = RMB1.06.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 August 2003 (being the date to which the latest audited combined financial statements of the Group were made up).

UNDERWRITING ARRANGEMENTS FOR THE SHARE OFFER

PLACING UNDERWRITERS

Watterson Asia
Partners Capital

PUBLIC OFFER UNDERWRITERS

Watterson Asia
Partners Capital
CSC Securities (HK) Limited
First Shanghai Securities Limited
Tai Fook Securities Company Limited
Kingston Securities Limited
South China Securities Limited
G.K. Goh Securities (H.K.) Limited
Kingsway Financial Services Group Limited
Core Pacific – Yamaichi International (H.K.) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company and the Vendor are offering 70,400,000 New Shares and the Sale Shares for subscription and purchase, respectively, at the Offer Price, under the Placing subject to the terms and conditions set forth in this prospectus. The Company is offering 9,600,000 Public Offer Shares for subscription subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, *inter alia*, the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus on or before 6 March 2004, or such later date as the Company, the Sponsor and Watterson Asia may agree, the Underwriters have severally agreed to subscribe for or purchase or procure subscribers or purchasers to subscribe for or purchase the Offer Shares, subject to the terms and conditions of the Share Offer.

Grounds for termination

Watterson Asia (for itself and on behalf of all other Underwriters), in consultation with Partners Capital, shall have the absolute right by notice to the Company to terminate the Underwriting Agreement with immediate effect at any time prior to 6:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date (the “Termination Time”) if any of the following events shall occur prior to the Termination Time:–

- (a) there comes to the notice of Watterson Asia:–
 - (i) any matter or event showing any of the representations, warranties or undertakings contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the representations, warranties and undertakings

UNDERWRITING ARRANGEMENTS FOR THE SHARE OFFER

given by the Covenantors (the “Warranties”) or any other provisions of the Underwriting Agreement which, in any such cases, is considered, in the reasonable opinion of Watterson Asia, to be material in the context of the Share Offer; or

- (ii) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect; or
 - (iii) any event, series of events, matter or circumstances occurs or arises on or after the date of the Underwriting Agreement and before the Termination Time, being events, matters or circumstances which, if it had occurred before the date of the Underwriting Agreement, would have rendered any of the Warranties untrue, incorrect or misleading in any respect, and comes to the knowledge of Watterson Asia and which is considered, in the reasonable opinion of Watterson Asia to be material in the context of the Share Offer; or
 - (iv) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the reasonable opinion of Watterson Asia, a material omission in the context of the Share Offer; or
 - (v) any event, act or omission which gives or is likely to give rise to any material liability of the Company and any of the substantial shareholders (as defined in the GEM Listing Rules) of the Company arising out of or in connection with any representations, warranties or undertakings contained in the Underwriting Agreement; or
 - (vi) there comes to the notice of Watterson Asia any material breach by any party to the Underwriting Agreement other than the Underwriters of any provision of the Underwriting Agreement which, in the reasonable opinion of Watterson Asia, is material.
- (b) there shall have developed, occurred, existed, or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:–
- (i) any change in, or any event or series of events or development resulting or likely to result in any change in Hong Kong, the Cayman Islands, the BVI, the PRC or other jurisdiction relevant to the Group, the local, national or international financial, political, economic, military, industrial, stock market, currency or other market conditions; or
 - (ii) any new law or any change in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI, the PRC or any other jurisdiction relevant to the Group; or

UNDERWRITING ARRANGEMENTS FOR THE SHARE OFFER

- (iii) any change in the conditions of Hong Kong, the PRC or international equity securities or other financial markets; or
- (iv) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the USA or by the EU (or any member thereof) on Hong Kong or the PRC; or
- (v) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or
- (vi) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (vii) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI, the PRC or other jurisdiction relevant to the Group; or
- (viii) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (ix) any change or prospective change in the business or in the financial or trading position of the Group; or
- (x) any other change whether or not ejusdem generis with any of the foregoing;

which, in the reasonable opinion of Watterson Asia (on its behalf and on behalf of all other Underwriters):—

- (aa) is or shall be, or is likely to be, adverse, in any material respect, to the business, financial or other condition or prospects of the Company and its subsidiaries taken as a whole or, in case of sub-paragraph (vii) above, on any present or prospective shareholder in his/its capacity as such Shareholder; or
- (bb) has or shall have or is likely to have a material adverse effect on the success of the Public Offer and/or the Placing or the level of the Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
- (cc) for any other reason makes it impracticable, inadvisable or inexpedient to proceed with the Share Offer.

UNDERWRITING ARRANGEMENTS FOR THE SHARE OFFER

For the above purpose:–

- (A) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the USA or a devaluation of the renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and
- (B) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

Commission, fees and expenses

The Underwriters will receive an underwriting commission of 3.5% of the aggregate Offer Price payable for the Offer Shares, out of which they will pay any sub-underwriting commission. The Sponsor and Watterson Asia will also receive a documentation fee and a financial advisory fee, respectively. Such fee and the underwriting commission, together with the Stock Exchange listing fees, legal and other professional fees, printing, and other expenses relating to the Share Offer, are estimated to be approximately HK\$13,000,000, in aggregate, and will be payable by the Vendor and the Company in the proportion of approximately 16.7% and 83.3%, respectively.

Undertakings

Each of the Initial Management Shareholders has jointly and severally undertaken to and covenanted with the Company, the Sponsor and the Joint Lead Managers (acting on their behalf and on behalf of all other Underwriters) that:–

- (a) he, she or it shall not and shall procure that none of his, her or its associates or companies controlled by him, her or it or nominees or trustees holding in trust for him, her or it shall sell, transfer or otherwise dispose of (or enter into any agreement to sell, transfer or otherwise dispose of), save pursuant to a pledge or charge to an authorised institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) as security for a bona fide commercial loan, any of his, her or its Relevant Securities (as defined in the GEM Listing Rules) or sell, transfer or otherwise dispose of, save pursuant to a pledge or charge to an authorised institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) as security for a bona fide commercial loan any of his, her or its Relevant Securities or any interests therein, or any shares held directly or indirectly by him, her or it or his, her or its associates, in any company controlled by him, her or it which is the beneficial owner of any of the Relevant Securities or interests nor permit the registered holder thereof to dispose of (or enter into any agreement to dispose of) any of his, her or its direct or indirect interest in the Relevant Securities during the Relevant Period;

UNDERWRITING ARRANGEMENTS FOR THE SHARE OFFER

- (b) he, she or it shall enter into an escrow agreement in the agreed form with an escrow agent acceptable to the Stock Exchange and the Sponsor and place in escrow, with such escrow agent, his, her or its Relevant Securities during the Relevant Period;
- (c) in the event that he, she or it disposes of his, her or its Relevant Securities after the restriction under paragraphs (a) and (b) above applicable to him, her or it lapses, all reasonable steps will be taken to ensure that such disposal will not create a false or disorderly market in the Shares; and
- (d) in the event that he, she or it pledges or charges any direct or indirect interest in the Relevant Securities or in any shares in any company controlled by him, her or it which is the beneficial owner of the Relevant Securities during the Relevant Period, he she or it must inform the Company and the Sponsor immediately thereafter, disclosing to the Company and the Sponsor the details of such pledge or charge including the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made and in the event that he, she or it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest, of such disposal or such intention to dispose and the number of securities affected.

The Company has undertaken to and covenanted with the Sponsor and the Joint Lead Managers that, and each of the Initial Management Shareholders has undertaken and covenanted with the Sponsor and the Joint Lead Managers to procure that, without the prior written consent of the Sponsor and the Joint Lead Managers (such consent not to be unreasonably withheld, delayed or conditioned) and subject always to the requirements of the Stock Exchange, save for the issue of Shares pursuant to the Share Offer and the Capitalisation Issue, the grant of any option under the Share Option Scheme or the issue of Shares pursuant to the exercise of any option that may be granted under the Share Option Scheme or otherwise than by way of scrip dividend schemes or similar arrangements in accordance with the Articles, the Company will not (a) within the period of six months from the Listing Date, allot and issue or agree to allot and issue any Shares or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise acquire any securities of the Company; (b) within the period of six months from the Listing Date, issue any Shares or securities in the Company or grant or agree to grant any options, warrants or other rights carrying the right to subscribe for or otherwise convert into or exchange for Shares or securities in the Company so as to result in the Initial Management Shareholders either individually or taken together with the others of them cease to be a controlling shareholder (within the meaning of the GEM Listing Rules) of the Company or the Company cease to hold a controlling interest of 30% or more in any major subsidiary of the Group; and (c) within the period of six months from the Listing Date to purchase any Shares or securities of the Company.

UNDERWRITING ARRANGEMENTS FOR THE SHARE OFFER

Sponsor's interest in the Company

The Sponsor and its respective associates will receive from the Company:–

- (a) a documentation fee payable to the Sponsor as sponsor of the Share Offer;
- (b) by way of underwriting commission to be paid to the Sponsor or any of its fellow subsidiaries, holding company or affiliates for acting as one of the Underwriters to the Share Offer; and
- (c) fee payable to the Sponsor under a sponsor's agreement to be entered into between the Sponsor and the Company pursuant to which the Sponsor will be retained as sponsor of the Company for the remainder of the current financial year and for the two financial years ending 31 December 2006.

The Sponsor confirms that saved as disclosed in the prospectus:–

- (a) neither the Sponsor nor any of its associates has or may, as a result of the listing or transaction, have an interest in any class of securities of the Company, or any other company within the Group (including options or rights to subscribe such securities);
- (b) no director or employee of the Sponsor who is involved in providing advice to the Company has or may, as a result of the Share Offer, have any interest in any class of securities of the Company or any other member of the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Share Offer);
- (c) neither the Sponsor nor any of its associates has accrued any material benefit as a result of the successful outcome of the Share Offer, including, for example, the repayment of material outstanding indebtedness or success fees save and except for the documentation fee and underwriting commission to be received by the Sponsor and its respective associates;
- (d) no director or employee of the Sponsor has a directorship in the Company or any other member of the Group; and
- (e) certain fellow subsidiaries, holding companies or affiliates of the Sponsor, whose ordinary businesses involve the trading of and dealing in securities, may derive commission from the trading and dealing in the securities of the Company.

UNDERWRITING ARRANGEMENTS FOR THE SHARE OFFER

Underwriters' interests in the Company

Save for (a) the interests, rights and obligations of Watterson Asia, as financial adviser to the Company and the bookrunner and a Joint Lead Manager of the Share Offer and (b) the interests, rights and obligations of all other Underwriters as described above and under the Underwriting Agreement, none of the Underwriters has any shareholding interest in any class of securities of any member of the Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or nominate persons to subscribe for or purchase securities in any member of the Group nor any interest in the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The Offer Price is HK\$0.55. Applicants should also pay, on application, the Offer Price plus brokerage fee of 1%, the transaction levy imposed by the Securities and Futures Commission of 0.005%, the investor compensation levy of 0.002% and the Stock Exchange trading fee of 0.005% of the Offer Price. This means that for every 5,000 Offer Shares, the subscriber will pay HK\$2,777.83.

CONDITIONS OF THE SHARE OFFER

Acceptance of any applications for the Offer Shares will be conditional upon:–

- (a) the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme; and
- (b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, following the waiver of any condition(s) by the Sponsor and Watterson Asia) and not being terminated in accordance with its terms or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived by the Sponsor and Watterson Asia on or before such dates and times) and in any event not later than that date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived by the Sponsor and Watterson Asia prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published by the Company on the GEM Website on the next day following such lapse.

THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing for a total of 96,000,000 Shares. A total of 9,600,000 New Shares will initially be made available under the Public Offer. A total of 86,400,000 Shares, comprising 70,400,000 New Shares and the Sale Shares, will initially be available under the Placing.

The number of the Public Offer Shares and the Placing Shares represent 10% and 90%, respectively, of the total number of the Offer Shares initially available under the Share Offer.

The 96,000,000 Shares being offered under the Share Offer will represent 30% of the Company's enlarged share capital immediately after completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Investors may apply for Shares under the Public Offer or indicate an interest for Shares under the Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong. The Placing is open to institutional, professional investors and other investors in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Share Offer is jointly lead managed by the Joint Lead Managers. The Placing Shares are fully underwritten by the Placing Underwriters on a several basis. The Public Offer Shares are fully underwritten by the Public Offer Underwriters on a several basis. Information relating to the underwriting arrangements in respect of the Share Offer is set forth in the section headed “Underwriting arrangements for the Share Offer” in this prospectus.

OFFER MECHANISM – BASIS OF ALLOCATION OF THE OFFER SHARES

The Public Offer

The total number of 9,600,000 Shares initially comprised of in the Public Offer represents 10% of the total number of the Offer Shares.

The Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Public Offer will be required to give an undertaking and confirmation in the Application Form that he or she has not taken up any Shares under the Placing nor otherwise participated in the Placing, and such applicant’s application will be rejected if the said undertaking and confirmation is breached and/or untrue, as the case may be. The Public Offer will be subject to the conditions stated under “Conditions of the Share Offer” above. The attention of applicants, including nominees who wish to submit separate applications on behalf of different beneficial owners, is drawn to the information regarding multiple applications contained in the section headed “How to apply for the Public Offer Shares” in this prospectus. **Multiple or suspected multiple applications under the Public Offer and any application for more than 100% of the Public Offer Shares initially being offered for subscription will be rejected.**

If the Public Offer is not fully subscribed, the Sponsor and Watterson Asia have the authority, after consultation with the Company, to reallocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such proportion as they deem appropriate.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Placing

70,400,000 New Shares will be initially offered by the Company for subscription and the Sale Shares will be offered by the Vendor for sale under the Placing, representing approximately 90% of the total number of the Offer Shares. The Placing is fully underwritten by the Placing Underwriters on a several basis, subject to the terms and conditions of the Underwriting Agreement.

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

REALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The initial allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation depending on the level of subscription of the Public Offer. The number of Shares under the Placing will be reallocated to the Public Offer on the following basis:–

- (a) If the number of the Public Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Public Offer Shares initially available for subscription by members of the public under the Public Offer, then additional Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available under the Public Offer will be increased to 28,800,000 Public Offer Shares, representing 30% of total number of the Offer Shares.
- (b) If the number of the Public Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Public Offer Shares initially available for subscription by members of the public under the Public Offer, then additional Offer Shares will be allocated to the Public Offer from the Placing, so that the total number of Offer Shares available under the Public Offer will be increased to 38,400,000 Public Offer Shares, representing 40% of total number of the Offer Shares.
- (c) If the number of the Public Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Public Offer Shares initially available for subscription by members of the public under the Public Offer, then additional Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available under the Public Offer will be increased to 48,000,000 Public Offer Shares, representing 50% of the total number of the Offer Shares.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

If the Public Offer is not fully subscribed, the Sponsor and Watterson Asia may, after consultation with the Company, re-allocate all or any unsubscribed Public Offer Shares to the Placing in such proportion and manner as the Sponsor and Watterson Asia consider appropriate.

OVER-SUBSCRIPTION IN THE PUBLIC OFFER

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

WHICH APPLICATION FORM TO USE

Use a **WHITE** Application Form if you want the Share certificate for the Public Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Share certificate for the Public Offer Shares to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant maintained in CCASS.

Note: The Public Offer Shares are not available to the Directors, chief executive of the Company or any of its subsidiaries or existing beneficial Shareholders or associates of any of them.

WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus from:–

Any participant of
The Stock Exchange of Hong Kong Limited

or

Watterson Asia Limited
5th Floor, 8 Queen's Road Central
Hong Kong

or

Partners Capital International Limited
Suite 1305
9 Queen's Road Central
Hong Kong

or

CSC Securities (HK) Limited
Unit 3204-07, 32nd Floor, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

or

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

First Shanghai Securities Limited

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

or

Tai Fook Securities Company Limited

25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

or

Kingston Securities Limited

Suite 2801, 28th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

or

South China Securities Limited

28th Floor, Bank of China Tower
1 Garden Road
Hong Kong

or

G.K. Goh Securities (H.K.) Limited

Suite 1808, Alexandra House
16-20 Chater Road, Central
Hong Kong

or

Kingsway Financial Services Group Limited

5th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

or

Core Pacific – Yamaichi International (H.K.) Limited

36th Floor, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

or any of the following branches of **Hang Seng Bank Limited**:-

Hong Kong Island:	Head Office	83 Des Voeux Road Central
	Central District Branch	Basement, Central Building, Pedder Street
	Causeway Bay Branch	28 Yee Wo Street
	Wanchai Branch	200 Hennessy Road
Kowloon:	Kowloon Main Branch	618 Nathan Road
	Tsimshatsui Branch	18 Carnarvon Road
	Kwun Tong Branch	70 Yue Man Square
	Mongkok Branch	677 Nathan Road
New Territories:	Chung On Street Branch	38 Chung On Street, Tsuen Wan
	Shatin Branch	18 Lucky Plaza, Wang Pok Street, Sha Tin

You can collect a **YELLOW** Application Form and a prospectus from:-

the Depository Counter of HKSCC

2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

or

the Customer Service Centre of HKSCC

Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions, your application may be rejected.

If your application is made through a duly authorised attorney, the Company or the Sponsor and Watterson Asia, as agents for the Company, may accept the application at their discretion, and subject to any conditions the Company may think fit, including evidence of the authority of your attorney.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

HOW MANY APPLICATIONS MAY YOU MAKE

There is only one situation where you may make more than one application for the Public Offer Shares:–

- If you are a nominee, you may lodge more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:–
 - an account number; or
 - some other identification code

for each beneficial owner. If you do not include this information, the applications will all be treated as being made for your own benefit.

Otherwise, multiple applications are not allowed and will be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form, you:–

- (if the application is made for your own benefit) warrant that this is the only application made and the only application intended to be made for your benefit on the **WHITE** or **YELLOW** Application Form;
- (if you are an agent for another person) warrant that all reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form and that you are duly authorised to sign the relevant Application Form as that other person’s agent.

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

- make more than one application on a **WHITE** or **YELLOW** Application Form;
- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form for more than 100% of the Public Offer Shares as more particularly described in the section headed “Structure and Conditions of the Share Offer” in this prospectus; or
- apply for, receive, been allocated take up, indicate an interest in any Placing Shares or otherwise participate in the Placing.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be deemed to be for your benefit.

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

Statutory control means you:–

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

HOW MUCH ARE THE PUBLIC OFFER SHARES

The price of the Public Offer Shares is HK\$0.55 each. You must also pay brokerage of 1%, the transaction levy of 0.005% and the investor compensation levy of 0.002% and the Stock Exchange trading fee of 0.005% of the Offer Price. This means that for every 5,000 Offer Shares, you will pay approximately HK\$2,777.83. The Application Forms have tables showing the exact amount payable for multiples of the Public Offer Shares.

You must pay the price for each Offer Share, the brokerage, the transaction levy, the investor compensation levy and the trading fee in full when you apply for the Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the Application Forms.

If your application is successful, brokerage is paid to the participants of the Stock Exchange, the transaction levy and the investor compensation levy are paid to the Securities and Futures Commission and the trading fee is paid to the Stock Exchange.

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

Completed **WHITE** and **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Tuesday, 10 February 2004, or, if the application lists of the Public Offer are not open on that day, then by 12:00 noon on the next business day the application lists of the Public Offer are open.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of Hang Seng Bank Limited listed under “Where to collect the Application Forms” above at the following times:–

Thursday, 5 February 2004	– 9:00 a.m. to 4:00 p.m.
Friday, 6 February 2004	– 9:00 a.m. to 4:00 p.m.
Saturday, 7 February 2004	– 9:00 a.m. to 12:00 noon
Monday, 9 February 2004	– 9:00 a.m. to 4:00 p.m.
Tuesday, 10 February 2004	– 9:00 a.m. to 12:00 noon

The application lists of the Public Offer will be open from 11:45 a.m. to 12:00 noon on Tuesday, 10 February 2004.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS OF THE PUBLIC OFFER

The application lists of the Public Offer will not be open if there is:–

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

being in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 10 February 2004. Instead, the application lists of the Public Offer will be opened between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

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

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated the Public Offer Shares are set forth in the notes attached to the Application Forms, you should read them carefully. You should note in particular the following situations in which the Public Offer Shares will not be allotted to you:–

If your application is revoked:–

By completing an Application Form, you agree that you cannot revoke your application before the fifth day after the time of the opening of the application lists of the Public Offer (excluding for this purpose any day which is a Saturday, Sunday, or public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person in this prospectus. This agreement will take effect as a collateral contract with the Company and will become binding when you lodge your application form. If your application has been accepted, it cannot be revoked.

If the allotment of the Public Offer Shares is void:–

Your allotment of the Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares on GEM either:–

- within three weeks from the closing of the application lists of the Public Offer; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing of the application lists of the Public Offer.

If your application is rejected:–

Your application may be rejected if:–

- you make multiple or suspected multiple applications; or
- your Application Form is not completed in accordance with the instructions as stated thereon; or
- you or the person(s) for whose benefit you are applying have made the application, have applied for, received, been allocated or taken up (including conditionally and/or provisionally), or indicated an interest in or will apply for, receive, take up or indicate an interest in Placing Shares; or
- your application is for more than 100% of the Public Offer Shares being initially available for subscription under the Public Offer as described in the section headed “Structure and conditions of the Share Offer” in this prospectus; or
- your payment is not in the correct form; or
- you pay by cheque or banker’s cashier order and the cheque or the banker’s cashier order is dishonoured upon its first presentation; or
- the Company, the Sponsor, Watterson Asia or their respective agents or nominees believes that by accepting your application, it would violate the applicable securities laws or other laws, rules or regulations of the jurisdiction in which your application is completed and signed.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

At the discretion of the Company, the Sponsor, Watterson Asia or their respective agents or nominees, your application is rejected:-

The Company, the Sponsor, Watterson Asia and their respective agents or nominees, each severally as agent for the Company, have full discretion to reject or accept any application, or to accept only part of any application.

The Company, the Sponsor and Watterson Asia and their respective agents or nominees, each severally as agent for the Company, do not have to give any reasons for any rejection or acceptance.

COLLECTION/POSTING OF THE SHARE CERTIFICATES AND REFUND CHEQUES AND DEPOSIT OF THE SHARE CERTIFICATES INTO CCASS

If an application is rejected, not accepted or accepted in part only or if the conditions of the Share Offer are not fulfilled as described under “Conditions of the Share Offer” in the section headed “Structure and conditions of the Share Offer” in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, transaction levy, investor compensation levy and trading fee, will be refunded, WITHOUT interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

WHITE Application Form:-

If you have applied for 1,000,000 Public Offer Shares or more and have indicated on your Application Form that you will collect your Share certificate and/or refund cheque (if any) in person, you may collect them in person from:-

Tricor Investor Services Limited
Ground Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date to be notified by the Company on the GEM Website and in the newspapers as the date of despatch of the Share certificates and/or refund cheques. This is expected to be Friday, 13 February 2004.

You must show your identification documents and (where applicable) authorisation documents satisfactory to Tricor Investor Services Limited to collect your Share certificate and/or refund cheque (if any). Applicants being individuals who opt for collection in person must not authorise any other person to make collection on their behalf. Applicants being corporations which opt for collection in person must attend by their authorised representatives bearing letters of authorisations from their corporations stamped with the corporation’s chops.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Both individuals and representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited.

If you do not collect your Share certificate and/or refund cheque (if any) in person, it/they will be sent to the address on your Application Form shortly after the date of despatch, by ordinary post and at your own risk.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your Application Form that you will collect your Share certificate and/or refund cheque (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares, then your Share certificate and/or refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, by ordinary post and at your own risk.

YELLOW Application Form:–

Your Share certificate will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you at the close of business on Friday, 13 February 2004, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

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

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

If you are applying as a CCASS investor participant:–

- The Company will publish the result of CCASS investor participants' applications together with the results of the Public Offer on the GEM Website and in the newspapers on Friday, 13 February 2004. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 13 February 2004, or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. On Saturday, 14 February 2004 (the next day following the credit of the Public Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you have applied for 1,000,000 Public Offer Shares or above and have indicated on your application form that you will collect your refund cheque in person, the procedures set forth under “**WHITE** Application Form” above will apply.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your application form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares, then your refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, by ordinary post and at your own risk.

COMMENCEMENT OF DEALING IN THE SHARES ON GEM

Dealings in the Shares on GEM are expected to commence on Tuesday, 17 February 2004.

Shares will be traded on GEM in board lots of 5,000 Shares each.

The following is the text of a report, prepared for the purpose of incorporation in the prospectus, received from the reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

5 February 2004

The Directors

Century Sunshine Ecological Technology Holdings Limited
CSC Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Century Sunshine Ecological Technology Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for inclusion in the prospectus of the Company dated 5 February 2004 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 21 January 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) as detailed in subsection headed “Group reorganisation” in Appendix V of the Prospectus, which was completed on 30 January 2004, the Company became the holding company of the subsidiaries set out below.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as Hong Kong incorporated private companies. Details of these companies are as follows:

Company	Country/place and date of incorporation	Registered capital/ issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
<i>Directly held:</i>				
New Bright Group Limited (“New Bright”)	British Virgin Islands 12 December 2002	Ordinary US\$10	100%	Investment holding/ Hong Kong

Company	Country/place and date of incorporation	Registered capital/ issued and fully paid up capital	Attributable equity interest	Principal activities and place of operation
<i>Indirectly held:</i>				
Century Sunshine Ecological Technology Limited (formerly known as Century Sunshine Organic Agriculture Limited) ("Century Sunshine")	Hong Kong 5 July 2002	Ordinary HK\$1,000	100%	Investment holding/ Hong Kong
Green Land Bio-Product Co., Ltd. ("Green Land")	Mainland China 17 January 2000	Registered capital RMB10,500,000	100% <i>Note (i)</i>	Manufacturing and sale of agricultural organic fertilizers in Mainland China
三門市世紀陽光農業科技開發有限公司 ("San Ming")	Mainland China 16 June 2000	Registered capital RMB5,000,000	80% <i>Note (ii)</i>	Research and development and sale of organic fertilizers in Mainland China

Notes:

- (i) Green Land was a limited liability company established in Mainland China on 17 January 2000. On 25 October 2002, it became a wholly owned foreign enterprise established in Mainland China to be operated for a period of 15 years up to 2017.
- (ii) San Ming is a limited liability company established in Mainland China on 16 June 2000 to be operated for a period of 10 years up to 2010.

All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited accounts have been prepared for the Company and New Bright since their incorporation as they are not subject to any statutory audit requirement. No audited accounts have been prepared by Century Sunshine since its incorporation as it will prepare its first set of audited accounts for the period ended 31 December 2003. The statutory accounts of Green Land for the year ended 31 December 2001, which were prepared in accordance with the accounting principles and relevant financial regulations applicable to enterprises established in Mainland China, were audited by Fujian Jianlian Certified Public Accountants Ltd., Certified Public Accountants in Mainland China. The statutory accounts of Green Land for the year ended 31 December 2002 and the statutory accounts of San Ming for the years ended 31 December 2001 and 2002, which were prepared in accordance with the accounting principles and relevant financial regulations applicable to enterprises established in Mainland China, were audited by Sanming Hengxin Certified Public Accountants, Certified Public Accountants in Mainland China. For the purpose of this report, we have carried out an independent audit of the accounts of Green Land and San Ming, prepared in accordance with the accounting principles generally accepted in Hong Kong, for the years ended 31 December 2001 and 2002 and the eight months ended 31 August 2002 and 31 August 2003 (the "Relevant Periods") in

accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants for incorporation of the accounts of Green Land and San Ming into the combined financial information of the Group.

We have examined the audited accounts or, where appropriate, the unaudited management accounts of all companies now comprising the Group for the Relevant Periods or from their respective dates of incorporation to 31 August 2003, where this is a shorter period, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The financial information as set out in sections I to IV below ("Financial Information") has been prepared based on the audited accounts or, where appropriate, unaudited management accounts of all companies now comprising the Group, on the basis set out in note 1 under section II below, after making such adjustments as are appropriate. The directors of the respective group companies are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the combined results and combined cash flows of the Group for the Relevant Periods and the combined balance sheets of the Group as at 31 December 2001 and 2002 and 31 August 2003.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in note 1 under section II below, gives a true and fair view of the combined results and combined cash flows of the Group for the Relevant Periods and the combined state of affairs of the Group as at 31 December 2001 and 2002 and 31 August 2003.

I. COMBINED FINANCIAL INFORMATION

The following is a summary of the combined financial information of the Group for the Relevant Periods, prepared on the basis set out in note 1 under section II below, after making adjustments as are appropriate:

(a) Combined profit and loss accounts

	<i>Note</i>	Year ended 31 December		Eight months ended 31 August	
		2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Turnover	3	5,923	42,630	22,475	25,216
Cost of sales		<u>(3,140)</u>	<u>(19,177)</u>	<u>(11,334)</u>	<u>(12,005)</u>
Gross profit		2,783	23,453	11,141	13,211
Distribution and selling expenses		(700)	(3,241)	(2,023)	(1,691)
General and administrative expenses		(1,433)	(2,702)	(1,955)	(1,851)
Research and development costs		<u>(108)</u>	<u>(4,079)</u>	<u>(1,139)</u>	<u>(66)</u>
Operating profit	5	542	13,431	6,024	9,603
Finance costs	6	<u>(269)</u>	<u>(230)</u>	<u>(175)</u>	<u>(170)</u>
Profit before taxation		273	13,201	5,849	9,433
Taxation	7	<u>–</u>	<u>(11)</u>	<u>–</u>	<u>(28)</u>
Profit after taxation		273	13,190	5,849	9,405
Minority interests		<u>(504)</u>	<u>226</u>	<u>195</u>	<u>(22)</u>
(Loss)/profit attributable to shareholders		<u><u>(231)</u></u>	<u><u>13,416</u></u>	<u><u>6,044</u></u>	<u><u>9,383</u></u>
Dividends	8	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

(b) Combined balance sheets

		As at 31 December		As at
		2001	2002	31 August
	Note	RMB'000	RMB'000	2003
				RMB'000
Non-current assets				
Fixed assets	12	3,253	6,356	9,846
Intangible assets	13	3,850	2,899	2,265
		<u>7,103</u>	<u>9,255</u>	<u>12,111</u>
Current assets				
Inventories	14	1,421	1,847	1,957
Trade receivables	15	1,909	5,915	5,996
Due from a related party	25	379	–	–
Loan receivable	16	1,438	–	–
Prepayments, deposits and other receivables	17	1,806	4,588	6,481
Cash and bank balances	18	4	1,694	8,871
		<u>6,957</u>	<u>14,044</u>	<u>23,305</u>
Current liabilities				
Short-term bank loans	19	3,000	3,000	8,000
Trade payables	20	2,054	20	7
Accruals and other payables		1,133	1,082	1,115
Due to a minority shareholder of a subsidiary	25	300	–	–
Taxation payable		–	11	28
		<u>6,487</u>	<u>4,113</u>	<u>9,150</u>
Net current assets		<u>470</u>	<u>9,931</u>	<u>14,155</u>
Total assets less current liabilities		<u><u>7,573</u></u>	<u><u>19,186</u></u>	<u><u>26,266</u></u>
Financed by:				
Share capital	21	5,000	5,001	10,501
Reserves	22	(2,973)	9,807	11,370
Shareholders' funds		<u>2,027</u>	<u>14,808</u>	<u>21,871</u>
Minority interests		<u>1,333</u>	<u>1,107</u>	<u>1,129</u>
Non-current liabilities				
Due to shareholders	25	4,213	3,271	3,266
		<u>7,573</u>	<u>19,186</u>	<u>26,266</u>

(c) Combined cash flow statements

	<i>Note</i>	Year ended		Eight months ended	
		31 December		31 August	
		2001	2002	2002	2003
		RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation		273	13,201	5,849	9,433
Interest expense		269	230	175	170
Depreciation of fixed assets		825	800	618	986
Amortisation of intangible assets		706	951	634	634
Loss on disposal of fixed assets		–	13	–	–
Operating profit before					
working capital changes		2,073	15,195	7,276	11,223
Decrease/(increase) in inventories		452	(426)	791	(110)
Increase in trade receivables		(1,909)	(4,006)	(3,716)	(81)
Decrease/(increase) in prepayments,					
deposits and other receivables		236	(2,782)	327	(1,893)
Decrease in trade payables		(1,400)	(2,034)	(1,865)	(13)
Increase/(decrease) in accruals and					
other payables		210	(51)	899	33
Income tax paid		–	–	–	(11)
Net cash (used in)/from					
operating activities		(338)	5,896	3,712	9,148
Investing activities					
Purchase of fixed assets		(60)	(3,916)	(3,100)	(4,476)
Proceeds from disposal of fixed assets		900	–	–	–
Increase in intangible assets		(1,756)	–	–	–
(Increase)/decrease in amount due					
from a related party		(163)	379	379	–
Decrease in loan receivable		350	1,438	1,438	–
Net cash used in investing activities		(729)	(2,099)	(1,283)	(4,476)
Financing activities	24				
Increase/(decrease) in amounts due					
to shareholders		1,035	(942)	(900)	(5)
Increase/(decrease) in amount due					
to a minority shareholder					
of a subsidiary		300	(300)	(300)	–
New short-term bank loans		–	–	–	5,000
Proceeds from issue of shares of a					
subsidiary		–	1	–	–
Share issuance costs		–	(636)	–	(2,320)
Interest paid		(269)	(230)	(175)	(290)
Government grant received		–	–	–	120
Net cash from/(used in) financing		1,066	(2,107)	(1,375)	2,505
(Decrease)/increase in cash					
and bank balances		(1)	1,690	1,054	7,177
Cash and bank balances,					
beginning of year/period		5	4	4	1,694
Cash and bank balances,					
end of year/period		4	1,694	1,058	8,871

(d) Combined statements of changes in equity

	Reserves					Subtotal	Total
	Share capital	Retained earnings/ (accumulated losses)	Statutory reserve fund	Statutory welfare fund	Share issuance costs		
	RMB'000 (Note 21)	RMB'000	RMB'000 (Note 22)	RMB'000 (Note 22)	RMB'000	RMB'000	RMB'000
As at 1 January 2001	5,000	(2,742)	-	-	-	(2,742)	2,258
Loss for the year	-	(231)	-	-	-	(231)	(231)
As at 31 December 2001	5,000	(2,973)	-	-	-	(2,973)	2,027
Profit for the year	-	13,416	-	-	-	13,416	13,416
Appropriation of retained earnings (Note 22)	-	(2,792)	1,861	931	-	-	-
Issue of shares of a subsidiary	1	-	-	-	-	-	1
Share issuance costs	-	-	-	-	(636)	(636)	(636)
As at 31 December 2002	5,001	7,651	1,861	931	(636)	9,807	14,808
As at 1 January 2003	5,001	7,651	1,861	931	(636)	9,807	14,808
Profit for the period	-	9,383	-	-	-	9,383	9,383
Appropriation of retained earnings (Note 22)	-	(1,645)	1,097	548	-	-	-
Capitalisation of retained earnings of a subsidiary	5,500	(5,500)	-	-	-	(5,500)	-
Share issuance costs	-	-	-	-	(2,320)	(2,320)	(2,320)
As at 31 August 2003	10,501	9,889	2,958	1,479	(2,956)	11,370	21,871
As at 1 January 2002	5,000	(2,973)	-	-	-	(2,973)	2,027
Profit for the period	-	6,044	-	-	-	6,044	6,044
Appropriation of retained earnings (Note 22)	-	(1,263)	842	421	-	-	-
As at 31 August 2002	5,000	1,808	842	421	-	3,071	8,071

II. NOTES TO THE COMBINED FINANCIAL INFORMATION**1. Basis of presentation**

For the purpose of this report, the combined profit and loss accounts, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods include the financial information of the companies now comprising the Group, as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation to 31 August 2003, whichever is a shorter period.

The combined balance sheets of the Group as at 31 December 2001, 2002 and 31 August 2003 have been prepared to present the assets and liabilities of the Group as at these dates as if the current group structure had been in existence at these dates.

All significant intra-group transactions and balances between companies comprising the Group have been eliminated on combination. Minority interests represent the interests of a minority shareholder in the operating results and net assets of a subsidiary.

The financial information of the Group for the eight months ended 31 August 2002, which is prepared and responsible by the Directors of the Company, is presented for information purposes only.

2. Principal accounting policies

The Financial Information in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong. It has been prepared under the historical cost convention.

a. Subsidiaries

Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

*b. Intangible assets**i. Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

ii. Technical know-how

Expenditure on acquired technical know-how is capitalised and amortised using the straight-line method over the useful life of 5 years from the date when the technical know-how is available for use.

iii. Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

c. *Fixed assets*

i. Construction-in-progress

Construction-in-progress represents fixed assets under construction or renovation, and is stated at cost less accumulated impairment losses. Cost comprises the direct costs of construction or renovation. Construction-in-progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

ii. Other fixed assets

Other fixed assets, comprising leasehold improvements, plant and machinery, and furniture and office equipment, are stated at costs less accumulated depreciation and accumulated impairment losses.

iii. Depreciation

No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and put into use.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Plant and machinery	20%
Furniture and office equipment	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account.

Improvements are capitalised and depreciated over their expected useful lives.

iv. Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in construction-in-progress and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

d. *Government grants*

A government grant is initially recognised as deferred income when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate. Grants relating to assets are recognised in the profit and loss account, on a systematic basis over the useful life of the asset.

Government grants relating to the purchase of fixed assets are included in non current liabilities as deferred income and are credited to profit and loss account on a straight line basis over the expected lives of the related assets.

e. Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

f. Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

g. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

h. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

i. Employee retirement benefits

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

j. Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets and tax losses carried forward.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

k. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

l. Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

m. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

n. Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

o. Segment reporting

The Group is principally engaged in the manufacturing and trading of agricultural organic fertilizers to customers in Mainland China. Accordingly, the directors consider there is only one business segment and one geographical segment.

p. Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at average rate. Exchange differences are dealt with as a movement in reserves.

3. Turnover and revenue

The Group is principally engaged in the manufacturing and trading of agricultural organic fertilizers. Revenues recognised during the Relevant Periods are as follows:

	Year ended		Eight months ended	
	31 December		31 August	
	2001	2002	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of				
– Microbial compound fertilizers	3,854	18,121	8,290	9,629
– Organic tea fertilizers	1,622	14,231	9,915	8,323
– Premium organic fertilizers	48	1,119	537	1,031
– Organic compound fertilizers	399	9,159	3,733	6,233
	<u>5,923</u>	<u>42,630</u>	<u>22,475</u>	<u>25,216</u>

4. Segmental information

No segment information is presented as the Group is principally engaged in the manufacturing and trading of agricultural organic fertilizers to customers in Mainland China. Accordingly, the directors consider there is only one business segment and one geographical segment.

5. Operating profit

Operating profit is stated after charging the following:

	Year ended 31 December		Eight months ended 31 August	
	2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Auditors' remuneration	21	21	8	15
Amortisation of intangible assets	706	951	634	634
Depreciation of fixed assets	825	800	618	986
Loss on disposal of fixed assets	–	13	–	–
Research and development costs	1,394	4,079	1,139	66
Less: amount capitalised as intangible assets	(1,156)	–	–	–
Less: government grant	(130)	–	–	–
	<u>108</u>	<u>4,079</u>	<u>1,139</u>	<u>66</u>
Operating lease rental expense of land and buildings	54	171	59	297
Provision for bad and doubtful debts	–	181	174	134
Staff costs (including directors' emolument)	954	2,225	1,513	1,170

6. Finance costs

	Year ended 31 December		Eight months ended 31 August	
	2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Interest expense on bank loans	269	230	175	290
Less: government grant	–	–	–	(120)
	<u>269</u>	<u>230</u>	<u>175</u>	<u>170</u>

During the eight months ended 31 August 2003, Green Land received a project loan interest payment subsidy of RMB120,000 from local government authority, which was deducted against the interest expense on relevant bank loans.

7. Taxation

The amount of taxation charged to the combined profit and loss account represents:

	Year ended 31 December		Eight months ended 31 August	
	2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Current taxation				
– Mainland China enterprise income tax	–	11	–	28

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the subsidiaries operating in Mainland China as follows:

	Year ended 31 December		Eight months ended 31 August	
	2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Profit before taxation	273	13,201	5,849	9,433
Calculated at a taxation rate of 33%	90	4,356	1,931	3,113
Tax loss of subsidiaries not recognised	20	34	140	71
Effect of different taxation rates	7	274	54	67
Effect of expenses not deductible for taxation	752	947	300	362
Effect of income not subject to taxation	(151)	(5,584)	(2,425)	(3,585)
Utilisation of previously unrecognised tax losses	(718)	(16)	–	–
Taxation charge	–	11	–	28

a. *Hong Kong profits tax*

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the Relevant Periods.

b. *Mainland China enterprise income tax ("Mainland China EIT")*

Green Land, a subsidiary engaged in the manufacture and sales of agricultural organic fertilizers, is exempted from Mainland China EIT of a rate 33% according to a written approval from relevant Mainland China tax bureaus for the one-year period ended 31 December 2002. No provision for Mainland China EIT was made for the year ended 31 December 2001 as Green Land had no taxable profit, after offsetting prior year tax loss, for the year.

In October 2002, Green Land became a wholly-foreign-owned enterprise and is entitled to full exemption from Mainland China EIT for two years starting from the year ended 31 December 2003 followed by a 50% reduction for the following three consecutive years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China. Accordingly, no Mainland China EIT was provided for the eight months ended 31 August 2003.

For the year ended 31 December 2002 and the eight months ended 31 August 2003, taxation represented the Mainland China EIT of San Ming which was provided for at a rate of 27%. No Mainland China EIT was provided for the year ended 31 December 2001 and the eight months ended 31 August 2002 as San Ming had no taxable profit during the year ended 31 December 2001 and the eight months ended 31 August 2002.

c. *Mainland China value-added tax*

The Group's sales of agricultural organic fertilizers were carried out by Green Land and San Ming, which are exempted from Mainland China value-added tax according to relevant Mainland China tax regulations.

d. *Others*

A group company established in the British Virgin Islands is incorporated under the International Business Companies Act of the British Virgin Islands and is exempted from the British Virgin Islands income taxes.

e. *Deferred taxation*

The Group had no material unprovided deferred tax as at 31 December 2001, 2002 and 31 August 2003.

8. Dividends

No dividends have been paid or declared by the companies now comprising the Group since their incorporation to 31 August 2003.

9. Earnings per share

No earnings per share information is presented as this would be hypothetical due to the Reorganisation and presentation of the results on a combined basis, as disclosed in note 1 to the combined financial information.

10. Directors' and senior executives' emoluments

(a) *Directors' emoluments*

The aggregate amount of emoluments paid and payable to two executive directors of the companies now comprising the Group during the Relevant Periods are as follows:

	Year ended 31 December		Eight months ended 31 August	
	2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Fees	–	–	–	–
Other emoluments				
– Basic salaries and allowances	31	31	22	182
– Retirement benefit cost	–	–	–	8
– Bonus	–	–	–	–
	<u>31</u>	<u>31</u>	<u>22</u>	<u>190</u>

The two executive directors received individual emolument of RMB31,000 and Nil for the year ended 31 December 2001, RMB31,000 and Nil for the year ended 31 December 2002, RMB22,000 and Nil for the eight months ended 31 August 2002, and RMB22,000 and RMB168,000 for the eight months ended 31 August 2003.

No emoluments were paid to other directors of the Company during the Relevant Periods.

The emoluments of each of the directors of the Company were below HK\$1,000,000 (equivalent to RMB1,060,000) for the years ended 31 December 2001 and 2002 and the eight months ended 31 August 2002 and 2003.

None of the directors of the Company waived any emoluments paid by the companies now comprising the Group during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest during the Relevant Periods include one director for the years ended 31 December 2001 and 2002 and for the eight months ended 31 August 2002, and two directors for the eight months ended 31 August 2003. The emoluments paid to these directors are included in note 10(a) above. The aggregate amounts of emoluments of the remaining individuals are as follows:

	Year ended 31 December		Eight months ended 31 August	
	2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Fees	–	–	–	–
Other emoluments				
– Basic salaries and allowances	87	98	72	60
– Retirement benefit cost	–	–	–	–
– Bonus	–	–	–	–
	<u>87</u>	<u>98</u>	<u>72</u>	<u>60</u>

The emoluments of each of the highest paid individuals were below HK\$1,000,000 (equivalent to RMB1,060,000) for the years ended 31 December 2001 and 2002 and the eight months ended 31 August 2002 and 2003.

(c) During the Relevant Periods, no emoluments were paid by the companies now comprising the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Employee retirement benefits

The Group operates a defined contribution MPF scheme for its Hong Kong employees. The Group contributes 5% of the employees' relevant income each month as defined in the MPF Schemes Ordinance, subject to a maximum of HK\$1,000 per person.

As stipulated by rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China as determined by the local government, which are defined contribution plans. The Group contributed approximately 14% of the basic salaries of its employees in Mainland China, and had no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

For the years ended 31 December 2001 and 2002 and the eight months ended 31 August 2002 and 2003, the aggregate amount of the Group's contributions to the aforementioned pension schemes were approximately RMB117,000, RMB273,000, RMB186,000 and RMB152,000, respectively.

12. Fixed assets

	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture and office equipment <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
As at 1 January 2001	1,153	3,830	20	730	5,733
Additions	20	34	5	1	60
Disposals	–	(900)	–	–	(900)
As at 31 December 2001	1,173	2,964	25	731	4,893
Additions	–	152	4	3,760	3,916
Disposals	(18)	–	–	–	(18)
As at 31 December 2002	1,155	3,116	29	4,491	8,791
Additions	–	63	–	4,413	4,476
Transfer	1,350	1,684	–	(3,034)	–
As at 31 August 2003	2,505	4,863	29	5,870	13,267
Accumulated depreciation					
As at 1 January 2001	228	586	1	–	815
Charge for the year	233	588	4	–	825
As at 31 December 2001	461	1,174	5	–	1,640
Charge for the year	231	567	2	–	800
Disposals	(5)	–	–	–	(5)
As at 31 December 2002	687	1,741	7	–	2,435
Charge for the period	334	648	4	–	986
As at 31 August 2003	1,021	2,389	11	–	3,421
Net book value					
As at 31 December 2001	712	1,790	20	731	3,253
As at 31 December 2002	468	1,375	22	4,491	6,356
As at 31 August 2003	1,484	2,474	18	5,870	9,846

As at 31 December 2001 and 2002 and 31 August 2003, construction-in-progress included deposits of approximately nil, RMB1,457,000 and RMB1,370,000 prepaid to vendors for acquisition of certain machinery.

13. Intangible assets

	Technical know-how <i>RMB'000</i>	Development costs <i>RMB'000</i>	Total <i>RMB'000</i>
Cost			
As at 1 January 2001	3,000	–	3,000
Additions	600	1,156	1,756
As at 31 December 2001	3,600	1,156	4,756
Additions	–	–	–
As at 31 December 2002	3,600	1,156	4,756
Additions	–	–	–
As at 31 August 2003	3,600	1,156	4,756
Accumulated amortisation			
As at 1 January 2001	200	–	200
Charge for the year	590	116	706
As at 31 December 2001	790	116	906
Charge for the year	720	231	951
As at 31 December 2002	1,510	347	1,857
Charge for the period	480	154	634
As at 31 August 2003	1,990	501	2,491
Net book value			
As at 31 December 2001	<u>2,810</u>	<u>1,040</u>	<u>3,850</u>
As at 31 December 2002	<u>2,090</u>	<u>809</u>	<u>2,899</u>
As at 31 August 2003	<u>1,610</u>	<u>655</u>	<u>2,265</u>

14. Inventories

Inventories consisted of:

	As at 31 December 2001 <i>RMB'000</i>	As at 31 December 2002 <i>RMB'000</i>	As at 31 August 2003 <i>RMB'000</i>
Raw materials	292	1,240	1,131
Work-in-progress	339	512	269
Finished goods	790	95	557
	<u>1,421</u>	<u>1,847</u>	<u>1,957</u>

As at 31 December 2001 and 2002 and 31 August 2003, no inventories were carried at net realisable value.

15. Trade receivables

The normal credit period granted by the Group ranges from 30 to 90 days.

Aging analysis of trade receivables is as follows:

	As at 31 December		As at
	2001	2002	31 August
	RMB'000	RMB'000	2003
			RMB'000
0 to 30 days	–	2,198	2,747
31 to 60 days	157	2,122	1,521
61 to 90 days	–	768	1,486
91 to 180 days	–	1,008	557
181 to 365 days	1,752	–	–
	<u>1,909</u>	<u>6,096</u>	<u>6,311</u>
Less: Provision for bad and doubtful debts	–	(181)	(315)
	<u>1,909</u>	<u>5,915</u>	<u>5,996</u>

16. Loan receivable

As at 31 December 2001, the loan receivable was unsecured, non-interest bearing and repayable on demand. The loan receivable was fully settled in 2002.

17. Prepayments, deposits and other receivables

Prepayments, deposits and other receivables consisted of:

	As at 31 December		As at
	2001	2002	31 August
	RMB'000	RMB'000	2003
			RMB'000
Prepayments for			
– subcontracting fees	–	2,646	2,599
– purchase of raw materials	450	784	1,971
– purchase of fixed assets	203	–	–
– advertising fees	550	885	800
– research and development costs	119	–	550
Deposits	–	99	105
Others	484	174	456
	<u>1,806</u>	<u>4,588</u>	<u>6,481</u>

18. Cash and bank balances

As at 31 December 2001, 2002 and 31 August 2003, cash and bank balances of approximately RMB4,000, RMB1,072,000 and RMB8,155,000, respectively, were denominated in Renminbi and kept in Mainland China. The remittance of these funds out of Mainland China is subject to the foreign exchange control restriction imposed by the government of Mainland China.

19. Bank loans

As at 31 December 2001, 2002 and 31 August 2003, the short-term bank loans were secured, bore interest at rates ranging from approximately 6% to 9% per annum and repayable within five years. Details of the Group's banking facilities are set out in note 27.

20. Trade payables

The normal credit period granted to the Group by its vendors ranges from 30 to 60 days.

Aging analysis of trade payables is as follows:

	As at 31 December		As at
	2001	2002	31 August
	RMB'000	RMB'000	2003
			RMB'000
0 to 30 days	–	19	–
31 to 90 days	–	1	3
91 to 180 days	2,054	–	4
	<u>2,054</u>	<u>20</u>	<u>7</u>

21. Share capital

As at 31 December 2002, the Company was not incorporated and therefore there was no issued share capital of the Company as at 31 December 2001 and 2002. The combined share capital of the Group as at 31 December 2001 and 2002 represented the aggregate amount of issued and paid up capital of New Bright, Century Sunshine and Green Land, if applicable, as at the respective dates.

The Company was incorporated in Cayman Island on 21 January 2003. As at 31 August 2003, the share capital represented the aggregate amount of issued and paid up capital of the Company, New Bright, Century Sunshine and Green Land.

22. Reserves*Statutory reserve fund*

In accordance with the Articles of the subsidiaries established in Mainland China and relevant Mainland China rules and regulations, these subsidiaries are required to set aside 10% of their net profit after taxation as recorded in the Mainland China statutory accounts as the statutory reserve fund, except where the reserve fund balance has reached 50% of the subsidiaries' registered capital. The reserve fund can only be used to make goods previous years' losses, to expand the subsidiaries' production operations, or to increase the capital of the subsidiaries.

Statutory welfare fund

In accordance with the Articles of the subsidiaries established in Mainland China and relevant Mainland China rules and regulations, these subsidiaries are required to appropriate 5-10% of their net profit after taxation as recorded in the Mainland China statutory accounts as the statutory welfare fund. The directors of the subsidiaries have discretion in determining the percentage within the range specified by the relevant Mainland China rules and regulations. The fund can only be used to provide staff welfare facilities and other collective benefits to the subsidiaries' employees. The fund is non-distributable other than in liquidation.

23. Distributable reserve

The Company has not carried on any business since its incorporation except for the Reorganisation. Accordingly, the Company had no reserve available for distribution to shareholders as at 31 August 2003.

24. Notes to the combined cash flow statements

Analysis of changes in financing is as follows:

	Share Capital RMB'000	Bank loans RMB'000	Due to shareholders RMB'000	Due to a minority shareholder of a subsidiary RMB'000	Share issuance costs RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2001	5,000	3,000	3,178	-	-	829	12,007
Increase in amounts due to shareholders	-	-	1,035	-	-	-	1,035
Increase in amount due to a minority shareholder of a subsidiary	-	-	-	300	-	-	300
Minority interest's share of profits	-	-	-	-	-	504	504
As at 31 December 2001	5,000	3,000	4,213	300	-	1,333	13,846
Decrease in amounts due to shareholders	-	-	(942)	-	-	-	(942)
Decrease in amount due to a minority shareholder of a subsidiary	-	-	-	(300)	-	-	(300)
Share issuance costs	-	-	-	-	(636)	-	(636)
Issue of shares of a subsidiary	1	-	-	-	-	-	1
Minority interest's share of losses	-	-	-	-	-	(226)	(226)
As at 31 December 2002	5,001	3,000	3,271	-	(636)	1,107	11,743
Decrease in amounts due to shareholders	-	-	(5)	-	-	-	(5)
New short-term bank loans	-	5,000	-	-	-	-	5,000
Share issuance costs	-	-	-	-	(2,320)	-	(2,320)
Capitalisation of retained earning of a subsidiary	5,500	-	-	-	-	-	5,500
Minority interest's share of profits	-	-	-	-	-	22	22
As at 31 August 2003	<u>10,501</u>	<u>8,000</u>	<u>3,266</u>	<u>-</u>	<u>(2,956)</u>	<u>1,129</u>	<u>19,940</u>
As at 1 January 2002	5,000	3,000	4,213	300	-	1,333	13,846
Decrease in amounts due to shareholders	-	-	(900)	-	-	-	(900)
Decrease in amount due to a minority shareholder of a subsidiary	-	-	-	(300)	-	-	(300)
Minority interest's share of losses	-	-	-	-	-	(195)	(195)
As at 31 August 2002	<u>5,000</u>	<u>3,000</u>	<u>3,313</u>	<u>-</u>	<u>-</u>	<u>1,138</u>	<u>12,451</u>

25. Related party transactions

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

- a. Significant transactions with related parties are summarised below:

	Note	Year ended 31 December		Eight months ended 31 August	
		2001 RMB'000	2002 RMB'000	2002 RMB'000	2003 RMB'000
Non-continuing:					
Sales to					
– Fuzhou Jia Hui Enterprise Co., Ltd (“Jia Hui”)	(i)	420	30	30	–
– Sanming Fei Li Gao Technology Co. Ltd (“Fei Li Gao”)	(i)	2,148	72	72	–
Purchases from					
– Jia Hui	(ii)	956	10,685	5,172	1,948
Research and development fees paid to Fei Li Gao	(iii)	1,077	1,250	350	–
Advertising fee paid to					
Fuzhou Ming Jiang Cultural Communication Co., Ltd (“Ming Jiang”)	(iv)	50	1,209	694	259

Notes:

- (i) Sales to Jia Hui and Fei Li Gao were conducted in the normal course of business at terms no less than those charged to and contracted with other third party customers of the Group. Jia Hui is beneficially owned by Ms. Chi Bifen (“Ms. Chi”), sister of Mr. Chi Wen Fu (“Mr. Chi”), a shareholder and a director of the Company. Fei Li Gao is beneficially owned by Ms. Zou Li (“Ms. Zou”), a shareholder and a director of the Company.
- (ii) Purchases from Jia Hui were conducted in the normal course of business at terms mutually agreed by both parties, which were comparable to those contracted with other third party suppliers of the Group.
- (iii) The research and development fees paid to Fei Li Gao were conducted in the normal course of business at terms mutually agreed by both parties.
- (iv) The advertising fee paid to Ming Jiang was conducted in the normal course of business at terms mutually agreed by both parties. Ming Jiang is beneficially owned by Ms. Chi.

- b. The amount due from a related party and the amount due to a minority shareholder of a subsidiary are summarised below:

	As at 31 December		As at
	2001	2002	31 August
	RMB'000	RMB'000	2003
			RMB'000
Amount due from a related party			
– Ms. Chi Bifen	379	–	–
	<u>379</u>	<u>–</u>	<u>–</u>
Amount due to a minority shareholder			
of a subsidiary – Mr. Chi Wen Qiang (i)	300	–	–
	<u>300</u>	<u>–</u>	<u>–</u>

Note:

- (i) Mr. Chi Wen Qiang is the minority shareholder of a subsidiary and brother of Mr. Chi.

The amount due from a related party and the amount due to a minority shareholder of a subsidiary were unsecured, interest free and had no fixed term of repayment.

- c. The prepayment to related parties is summarised below:

	As at 31 December		As at
	2001	2002	31 August
	RMB'000	RMB'000	2003
			RMB'000
Prepayment for			
– purchase of raw materials from Jia Hui (see Note 25(a)(ii))	450	784	–
– advertising fees to Ming Jiang (see Note 25(a)(iv))	550	885	–
– research and development fees to Fei Li Gao (see Note 25(a)(iii))	119	–	–
	<u>1,119</u>	<u>1,669</u>	<u>–</u>

- d. The trade payable to a related party is summarised below:

	As at 31 December		As at
	2001	2002	31 August
	RMB'000	RMB'000	2003
			RMB'000
Jia Hui (see Note 25(a)(ii))	1,779	–	–
	<u>1,779</u>	<u>–</u>	<u>–</u>

e. The amounts due to shareholders are as summarised below:

	As at 31 December		As at
	2001	2002	31 August
	RMB'000	RMB'000	2003
			RMB'000
Amounts due to shareholders			
Mr. Chi Wen Fu	3,433	2,491	2,486
Ms. Zou Li	780	780	780
	<u>4,213</u>	<u>3,271</u>	<u>3,266</u>

The amounts due to shareholders were unsecured and interest free. Subsequent to 31 August 2003, the amounts due to shareholders of approximately RMB3,266,000 were capitalised.

f. As at 31 December 2001 and 2002 and 31 August 2003, short-term bank loans of approximately RMB3,000,000 were secured by corporate guarantees provided by Jia Hui.

26. Commitments

a. Commitments under operating leases

As at 31 December 2001 and 2002 and 31 August 2003, the Group had future aggregate minimum lease payments under non-cancellable operating lease as follows:

	As at 31 December		As at
	2001	2002	31 August
	RMB'000	RMB'000	2003
			RMB'000
Not later than one year	45	419	415
Later than one year and not later than five years	180	425	180
Later than five years	675	630	600
	<u>900</u>	<u>1,474</u>	<u>1,195</u>

b. Capital commitments

As at 31 December 2001 and 2002 and 31 August 2003, the Group had commitments in respect of purchase of fixed assets (authorised and contracted for) of approximately RMB1,040,000, RMB86,000 and RMB1,875,000, respectively.

27. Banking facilities

The Group had aggregate banking facilities for loans of approximately RMB3,000,000, RMB3,000,000 and RMB8,000,000 as at 31 December 2001 and 31 December 2002 and 31 August 2003 respectively. These facilities were secured by corporate guarantees provided by Jia Hui (Note 25(f)) and 福建省三明雙輪化工機械有限公司, an independent third party corporation.

28. Subsequent Events

The following significant events took place subsequent to 31 August 2003:

- a. Subsequent to 31 August 2003, the companies now comprising the Group underwent the Reorganisation in preparation for the listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Details of the Reorganisation and alternations in the share capital of the Company are set out in the subsection headed "Group reorganisation" in Appendix V of the Prospectus.
- b. Subsequent to 31 August 2003, the amounts due to shareholders of approximately RMB3,266,000 were capitalised.
- c. On 30 and 31 January 2004, shareholder's resolutions were passed to effect the changes in the Company's share capital as described in the subsection headed "Changes in share capital of the Company" and the subsection headed "Written resolutions of the sole Shareholder passed on 31 January 2004" of Appendix V to the Prospectus.
- d. On 31 January 2004, shareholder's resolutions were passed to effect a capitalisation issue and other transactions as set out in the subsection headed "Written resolutions of the sole Shareholder passed on 31 January 2004" of Appendix V to the Prospectus.

III. FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated in the Cayman Islands on 21 January 2003. As at 31 August 2003, the authorised and issued share capital of the Company was HK\$100,000, divided into 1,000,000 shares of HK\$0.1 each. One share of the issued capital of the Company was fully paid while the remaining 999,999 shares were not paid up as at 31 August 2003.

IV. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared by the companies now comprising the Group in respect of any period subsequent to 31 August 2003 and no dividend or other distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 31 August 2003.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The estimate of the combined profit after taxation and minority interests of the Group for the financial year ended 31 December 2003 is set forth under “Profit estimate for the financial year ended 31 December 2003” in the section headed “Financial information” in this prospectus:–

1. BASES

The estimate of the combined profit after taxation and minority interests of the Group for the financial year ended 31 December 2003 prepared by the Directors is based on the audited combined accounts of the Group for the eight months ended 31 August 2003 and unaudited combined management accounts of the Group for the four months ended 31 December 2003. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the financial year ended 31 December 2003. The estimate has been prepared on the basis of the accounting policies which are consistent in all material respects with those currently adopted by the Group as summarised in the accountants’ report, the text of which is set forth in Appendix I to this prospectus.

2. LETTERS

Set forth below is the text of letters received from PricewaterhouseCoopers, the reporting accountants of the Company, and from the Sponsor in connection with the estimate of the combined profit after taxation and minority interests of the Group for the financial year ended 31 December 2003:–

Letter from PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central
Hong Kong

5 February 2004

The Directors
Century Sunshine Ecological Technology Holdings Limited
CSC Asia Limited

Dear Sirs

We have reviewed the calculations of and accounting policies adopted in arriving at the estimate for the combined profit after taxation and minority interests of Century Sunshine Ecological Technology Holdings Limited (the “Company”) and its subsidiaries (collectively referred to in this letter as the “Group”) for the year ended 31 December 2003 (the “Profit Estimate”) as set out in the subsection headed “Profit estimate for the financial year ended 31 December 2003” in the section headed “Financial information” in the prospectus of the Company dated 5 February 2004 (the “Prospectus”).

We conducted our work in accordance with the Auditing Guideline 3.341 on “Accountants’ report on profit forecasts” issued by the Hong Kong Society of Accountants.

The Profit Estimate, for which the Directors of the Company are solely responsible, has been prepared by them based on the audited combined result of the Group for the eight months ended 31 August 2003, and unaudited combined management accounts of the Group for the four months ended 31 December 2003 on the basis that the current group structure had been in existence throughout the whole financial year ended 31 December 2003.

In our opinion, the Profit Estimate, so far as the calculation and accounting policies are concerned, has been properly compiled in accordance with the bases made by the Directors of the Company as set out on page 186 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our accountants' report dated 5 February 2004, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

Letter from the Sponsor

CSC Asia Limited
Unit 3204-07
32nd Floor, Cosco Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

5 February 2004

The Directors
Century Sunshine Ecological Technology Holdings Limited
Room 2807, 28th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We refer to the estimate of the combined profit after taxation and minority interests of Century Sunshine Ecological Technology Holdings Limited (the “Company”) and its subsidiaries for the financial year ended 31 December 2003 as set forth in the prospectus of the Company dated 5 February 2004 (the “Profit Estimate”).

Unless the context requires otherwise, the use of capitalised terms in this letter shall have the same meanings as defined in the Prospectus.

We have discussed with you the bases upon which the Profit Estimate has been made. We have also considered the letter dated 5 February 2004 addressed to you and us from PricewaterhouseCoopers relating to the accounting policies and calculations upon which the Profit Estimate has been based. On the basis of the basis adopted by you and the accounting policies and calculations reviewed by PricewaterhouseCoopers, we have formed the opinion that the Profit Estimate, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
for and on behalf of
CSC Asia Limited
Howard Tang
Director

The following is the text of a letter, summary of values and valuation certificate received from Midland Surveyors Limited, an independent valuer, in connection with its valuation as at 31 December 2003 of the property interests of the Group in Hong Kong and the PRC:–



Room 2505-8, 25/F
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : 2801 4930
Fax : 2530 1357

5 February 2004

The Directors
Century Sunshine Ecological Technology Holdings Limited
Room 2807 on the 28th Floor of China Resources Building,
26 Harbour Road, Wanchai,
Hong Kong

Dear Sirs,

We refer to your instruction to value the property interests (as shown on the attached summary of values and valuation certificate as Properties 1 to 3) rented by Century Sunshine Ecological Technology Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) in Hong Kong and the People’s Republic of China (the “PRC”). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of these property interests as at 31 December 2003 (the “Valuation Date”).

BASIS OF VALUATION

Our valuation of these property interests is our opinion of the open market value of each of the property concerned which we would define as intended to mean “the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation assuming that:

- (a) there is a willing seller;
- (b) prior to the date of valuation, there has been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the property interest, for the agreement of price and terms and for the completion of the sale;

- (c) the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

OPINION OF VALUE

In respect of Properties 1 to 3 which are rented and occupied by the Group in Hong Kong and the PRC under tenancy agreements, we are of the opinion that they have no commercial value as at the Valuation Date due to their leasehold nature and/or the prohibition against their assignment and/or sub-letting, and hence, their lack of substantial profit rent.

TITLE INVESTIGATION

For Properties 1 to 3, we have been provided with a copy of the tenancy agreement for each of these property interests. For Property 1, we have also conducted searches at the Urban Land Registry in Hong Kong. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the above copies handed to us. For Property 2, we have also been provided with a copy each of the Construction Land Use Application Form and a document issued by Youxi County Xi Cheng Town People’s Government dated 1 July 2002. For Property 3, we have also been provided with a copy each of the State-Owned Land Use Rights Certificate and Sanming City Planning Construction Design Plan.

Due to the nature of the land registration system in the PRC, we have not examined the original documents to verify the existing titles of Properties 2 & 3 or any material encumbrances that might be attached to them. We have relied on the advice given by the Group and the PRC legal opinion given by the Group’s PRC legal adviser, Kang Da Law Office (Beijing) (“PRC Legal Adviser”), on the PRC laws regarding the titles of these property interests.

The current status regarding major approvals, title documents and other documents required in the PRC of Properties 2 & 3 has been verified by the PRC Legal Adviser and is set out as follows:

Property	Document/Approval			Construction Land Use Application Form	Planning and Construction Design Plan
	State-Owned Land Use Rights Certificate	Property Ownership Certificate	Tenancy Agreement		
2	No	No	Yes	Yes	No
3	Yes	No	Yes	No	Yes

VALUATION ASSUMPTIONS AND CONSIDERATION

Our valuation has been made on the assumption that the property interests are sold in the open market in their existing state without the effect of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect the values of these property interests.

Other special assumptions for each of the properties, if any, have been stated in the footnotes of the valuation certificate for the respective properties.

We have inspected the exterior of Properties 1 to 3. As no structural survey has been taken in Properties 1 to 3, we are, therefore, unable to report that the properties are free from rot, infestation or any structural defects. No tests were carried out on any of the building services in these properties.

We have not carried out on-site measurements to verify the correctness of the floor areas in respect of these properties but have assumed that the floor areas shown on the documents and handed to us are correct. Based on our experience in the valuation of similar properties, we consider the assumptions so made reasonable. All documents and contracts are used for reference only and all dimensions, measurements and areas are approximations.

Having examined all relevant documents, we have relied to a considerable extent on the information provided by the Group and the PRC Legal Adviser for Properties 2 & 3, and have accepted advices given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rentals, licenses, site and floor areas and in the identification of those properties in which the Group has valid interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. It is also assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

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

COMPLIANCE WITH GEM LISTING RULES

Our valuations are carried out in compliance with the requirements as contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars.

Unless otherwise defined, terms used in this letter, our Summary of Values and Valuation Certificate have the meanings as ascribed thereto in the prospectus of the Company.

Our valuation is summarised below in the summary of values and the valuation certificate in respect of the property interests are attached.

Yours faithfully,
For and on behalf of
Midland Surveyors Limited
Ronald Y. F. Cheung
BSc. (Hon) MRICS MHKIS RPS (GP)
Director

Note: Ronald Y.F. Cheung is a Chartered Surveyor who has extensive experience in the valuation of properties in Hong Kong, the PRC and the Asia-Pacific region.

SUMMARY OF VALUES

Property	Interest attributable to the Group	Open market value in existing state as at 31 December 2003 <i>HK\$</i>
Group I – Property interest rented and occupied by the Group in Hong Kong		
1. Room 2807 on the 28th Floor of China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong	100%	No commercial value
	Sub-total	<u>No commercial value</u>
Group II – Property interests rented and occupied by the Group in the PRC		
2. Steel works factory and open land therein, Tuan Jie Village, Youxi County, San Ming City, Fujian Province, PRC	100%	No commercial value
3. Classroom, West 2nd floor, Block 33, The Party School of the PRC Communist Party of San Ming City Committee, Dong An New Village, Lie Dong, Mei Lie District, San Ming City, Fujian Province, PRC	100%	No commercial value
	Sub-total	<u>No commercial value</u>
	Grand total	<u><u>No commercial value</u></u>

VALUATION CERTIFICATE

Group I – Property interest rented and occupied by the Group in Hong Kong

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December 2003 <i>HK\$</i>
1. Room 2807 on the 28th floor of China Resources Building No. 26 Harbour Road Wanchai Hong Kong	<p>Property No. 1 comprises an office unit on the 28th floor of a commercial/ office building known as China Resources Building (the “Subject Building”) which was completed in 1983.</p> <p>The Subject Building has 48 storeys. The lowest eight floors are devoted to commercial uses and the remaining upper floors are for office uses.</p> <p>Property No. 1 has a lettable floor area of approx. 1,239 sq.ft. (i.e. approx. 115 sq.m.)</p>	As at the Valuation Date, Property No. 1 is occupied by the Company for office purpose.	No Commercial Value

Notes:

1. According to the Urban Land Registry records, the registered owner of Property 1 is Eastern World Development Limited, an independent third party according to the Group.
2. According to the information from the Company, Property 1 is subject to a tenancy agreement dated 28 August 2002, salient particulars of which are set out as follows:
 - (i) Landlord: China Resources Property Management Limited (acting as the lawful attorney and agent for and on behalf of Eastern World Development Limited).
 - (ii) Tenant: Century Sunshine Organic Agriculture Limited (now known as Century Sunshine Ecological Technology Limited)
 - (iii) Term: 2 years commencing from 1 September 2002
 - (iv) Rent: HK\$23,275.00 per calendar month (Exclusive of rates, management fees and air-conditioning charges) with a two-month rent free period from 1 September 2002 to 30 September 2002 and 1 February 2004 to 29 February 2004.
 - (v) Restriction on Alienation: The tenant shall not assign, underlet or part with the possession of the property by subletting, lending, sharing or other means.
 - (vi) User: Commercial use only.
3. According to the Group, Century Sunshine Organic Agriculture Limited (now known as Century Sunshine Ecological Technology Limited) is a wholly-owned subsidiary of the Group.

4. Property 1 is erected on All That piece or parcel of land registered in the Urban Land Registry as the Inland Lot No. 8528 which is held under Conditions of Grant No. 11470 for a term of 75 years renewable for 75 years from 14 January 1980, at a rent of HK\$1,000.00 per annum.

5. Property 1 is rented and occupied by the Group under tenancy agreement. We are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

Group II – Property interests rented and occupied by the Group in the PRC

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December 2003 HK\$
2. Steel works factory and open land therein, Tuan Jie Village, Youxi County, San Ming City, Fujian Province, PRC	Property No. 2 is a piece of land with a total area of 21.9 mu (i.e. approx. 14,600 sq.m.), approx. 12 mu (i.e. approx. 8,000 sq.m.) of which factory structures are erected thereon.	Property No. 2 is occupied by the Group for factory, farming and experimental purposes as at the Valuation Date.	No commercial value

Notes:

1. Property 2 is subject to a tenancy agreement dated 17 September 1999 (“Tenancy Agreement”), salient particulars of which are set out as follows:
 - (i) Lessor: Youxi County Xi Cheng Town People’s Government
 - (ii) Tenant: Youxi Greenland Biology Products Company Limited (“Youxi Greenland”)
 - (iii) Term: 20 years commencing from 20 October 2001, the date 2 years immediately after the day on which the lessor has vacated the property (for the above 12 mu of land upon which factory structures are erected).
 - (iv) Rent: RMB1,000,000.00 (RMB50,000.00 per year, payable in the third year after the lessor has vacated the property) (for the above 12 mu of land upon which factory structures are erected).
 - (v) Restriction: The tenant shall not transfer, assign, underlet or change of use without the lessor’s approval.
 - (vi) User: production of biological reprocessing products and agricultural fertilizing products
 - (vii) Remarks: The lessor provides a piece of vacant land with an area of 9.9 mu (within the above 21.9 mu) adjoining the entrance of the steel works factory free of charge to the tenant for development, planting and experimenting uses. Youxi Greenland shall apply for the land use rights for the above vacant land and pay for all fees in connection with this application on its own.
2. The holder of land title rights of Property 2 is Youxi County Xi Cheng Town People’s Government, an independent third party according to the Group.
3. According to the Group, Youxi Greenland is a wholly-owned subsidiary of the Group.

4. Property 2 is also held under a document issued by Youxi Greenland by Youxi County Xi Cheng Town People's Government dated 1 July 2002 with the consent of Youxi County State Land Resources Bureau on 20 October 2002, significant particulars of which are as follows:
 - (i) The land use right of Property 2 and the property ownership right of the factory structures on Property No. 2 originally belonged to Youxi County Steel Factory and were approved by and registered in the relevant Planning Construction Management Department and Land Department. The Youxi County Steel Factory closed down in 1997 and Property 2 was resumed by Youxi County Xi Cheng Town People's Government. The land use right and property ownership of Property No. 2 now belong to Youxi County Xi Cheng Town People's Government.
 - (ii) The tangible asset, factory structures, fitting out and the infrastructure facilities of Youxi Greenland inside the factory compound area have been completed and operational and are protected by law.
5. According to the document dated 30 September 2003 issued by Youxi County State Land Resources Bureau, the land title rights of the factory compound used for enterprise construction land as approved by the Youxi County People's Government in 1994 belongs to Xi Cheng Town People's Government. So far the belonging of the land title rights has raised no disputes.
6. Opinions of the PRC Legal Adviser are summarized as follows:
 - (i) Youxi County Xi Cheng Town People's Government legally possesses the ownership rights of the leased land and factory structures of Property 2 and has the right to lease the property without the requirement of obtaining the approval, permission and agreement from the PRC Government departments. Any restrictions or flaws on rights and other potential legal impediments or disputes on the legal ownership of the above land and factory structures subject to tenancy by Youxi County Xi Cheng Town People's Government have not been found.
 - (ii) The Tenancy Agreement for leasing the Property to Youxi Greenland is legally valid and enforceable upon both parties.
 - (iii) Youxi Greenland has not yet made use of the 9.9-mu vacant land adjacent to the entrance of the steel works factory. It has not applied for land requisition nor initiated the process in obtaining the land-use right's certificate. It has also not signed the land-use right's grant contract nor paid the land-use grant premium.
7. Property 2 is rented and occupied by the Group under tenancy agreement. We are of the opinion that it has no commercial value due to its leasehold nature and/or the prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

Property	Description	Particulars of occupancy	Open market value in existing state as at 31 December 2003 <i>HK\$</i>
3. Classroom, West 2nd Floor, Block 33, The Party School of the PRC Communist Party of San Ming City Committee, Dong An New Village, Lie Dong, Mei Lie District, San Ming City, Fujian Province, PRC	Property No. 3 is a classroom situated on the 2nd floor of a school and residential compound. The floor area of Property No. 3 is approx. 130 sq.m. (i.e. approx 1,399 sq.ft.)	Property No. 3 is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Property 3 is subject to a tenancy agreement dated 1 January 2002 (the "Tenancy Agreement"), with the consent of San Ming City Real Estate Management Bureau and San Ming City State Land Resources Bureau, salient particulars of which are set out as follows:
 - (i) Landlord: Party School of the PRC Communist Party of San Ming City Committee ("Party School").
 - (ii) Tenant: Sanming City Century Sunshine Agricultural Technological Development Company Limited ("Sanming Century").
 - (iii) Term: From 1 January 2002 to 31 December 2003.
 - (iv) Rent: RMB500.00 per month inclusive of water charges.
 - (v) Restriction: The tenant shall not sublet the property without the landlord's approval.
 - (vi) User: Office purpose.
 - (vii) Tenancy Renewal: The Landlord and Tenant have signed a tenancy agreement dated 31 December 2003 (the "Renewed Tenancy Agreement") for a term of commencing from 1 January 2004 to 31 December 2006 with the same terms.
2. The owner of Property 3 is the Party School, an independent third party according to the Group.
3. Property 3 is held under a State-Owned Land Use Rights Certificate Ming Category (92) Series No. 00352 issued to Sanming Century by San Ming City Land Management Bureau on 23 October 1992, the significant particulars of which are as follows:
 - (i) Land No: M-4-37
 - (ii) Land Area: 27,399.2 sq.m.
 - (iii) Area Built Over: 5,962.5 sq.m.
 - (iv) Use Permitted: School, Residential
 - (v) Issuer: San Ming City Land Management Bureau

4. The Party School, where Property 3 is situated, is in the process of being developed, hence, its Property Ownership Certificate has not been issued. The planning design of the Party School designed by San Ming City Planning and Architecture Design Institute has been approved by San Ming City Spiritual Civilization Construction Committee.
5. Opinions of the PRC Legal adviser are summarised as follows:
 - (i) Sanming Century is a subsidiary of Youxi Greenland.
 - (ii) The land use right and building ownership right of Property No. 3 belong to Party School. The application for Property Ownership Certificate is in progress.
 - (iii) San Ming City State Land Bureau and San Ming City Real Estate Management Bureau have issued a written consent separately to allow Party School to let Property 3 to Sanming Century as office use.
 - (iv) The action in leasing of the premises by the Party School has been approved by relevant Government administration and management departments. Notwithstanding that this Party School has not obtained the Property Ownership Certificate of Property No. 3, this Party School has this right to individually lease Property No. 3 without obtaining further permission, approval or consent of any Government departments/organisations.
 - (v) Within the term of the Tenancy Agreement and the Renewed Tenancy Agreement, Sanming Century has exclusive occupation rights over Property 3, all terms and conditions in these agreements are legally valid and enforceable and binding upon both parties to perform all obligations.
 - (vi) The Tenancy Agreement and the Renewed Tenancy Agreement for leasing the Property 3 to Sanming Century are legally valid and enforceable.
6. Property 3 is rented and occupied by the Group under tenancy agreement. We are of the opinion that it has no commercial value due to its short term nature and prohibition against its assignment and/or sub-letting, and hence, its lack of substantial profit rent.

Set forth below is a summary of certain provisions of the memorandum of association of the Company and the Articles and of certain aspects of the company law of the Cayman Islands.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 January 2003 under the Companies Law. The memorandum of association and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 31 January 2004. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

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

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

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

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

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

(iii) Compensation or payments for loss of office

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

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

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

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

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

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

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

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

(vi) *Remuneration*

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

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

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

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

(vii) Retirement, appointment and removal

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

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

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

The office or director shall be vacated:

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

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

(viii) Borrowing powers

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

(ix) *Proceedings of the Board*

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

(x) *Register of Directors and Officers*

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

(b) Alterations to constitutional documents

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

(c) Alteration of capital

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

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares.
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from

such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or placing shares; and

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

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

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

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

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

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in

number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

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

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

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

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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

right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

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

(h) Accounts and audit

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

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

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

Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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

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

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

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

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

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

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

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

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

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

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

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

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

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

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

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

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

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

(m) Dividends and other methods of distribution

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

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

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

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or

such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

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

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

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

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

(n) Proxies

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

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

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

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

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

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

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

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

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

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

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

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

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

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

(t) Untraceable members

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

(u) Subscription rights reserve

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

3. CAYMAN ISLANDS COMPANY LAW

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

(a) Operations

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

(b) Share capital

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

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

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

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

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

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

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

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

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

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

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

(e) Dividends and distributions

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

(f) Protection of minorities

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

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

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

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

(g) Management

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

(h) Accounting and auditing requirements

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

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

(i) Exchange control

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

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

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

The undertaking for the Company is for a period of twenty years from 4 February 2003.

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

(k) Stamp duty on transfers

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

(l) Loans to directors

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

(m) Inspection of corporate records

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

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

(n) Winding up

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

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

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

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

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

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

(o) Reconstructions

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

(p) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

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

4. GENERAL

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

1. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**(a) Incorporation of the Company**

The Company was incorporated as an exempted company in the Cayman Islands under the Companies Law on 21 January 2003 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares. On 11 March 2003, one Share was allotted and issued to Codan Trust Company (Cayman) Limited, fully paid. On the same date, Codan Trust Company (Cayman) Limited transferred the one Share to Alpha Sino. As the Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution comprises a memorandum and articles of association. A summary of certain relevant parts of the constitution of the Company and relevant aspects of the Companies Law is set forth in Appendix IV to this prospectus.

(b) Changes in share capital of the Company

The following alterations in the share capital of the Company have taken place within the two years preceding the date of this prospectus:

- (i) On 11 March 2003, 999,999 Shares were allotted and issued, nil paid, to Alpha Sino which were subsequently credited as fully paid as described in paragraph 1(d)(iv) of this Appendix.
- (ii) Pursuant to a written resolution of the sole Shareholder passed on 30 January 2004, the authorised share capital of the Company was increased from HK\$100,000 to HK\$1,700,000 by the creation of an additional 16,000,000 Shares to rank pari passu with the existing Shares in all respects, all such Shares were allotted and issued, credited as fully paid, as described in paragraph 1(d)(iv) of this Appendix.
- (iii) Immediately following completion of the Share Offer and the Capitalisation Issue, the authorised share capital of the Company will be HK\$100,000,000 divided into 1,000,000,000 Shares of which 320,000,000 Shares will be allotted and issued fully paid or credited as fully paid, and 680,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made after completion of the Share Offer and the Capitalisation Issue which would effectively alter the control of the Company.

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

(c) Written resolutions of the sole Shareholder passed on 31 January 2004

Pursuant to the written resolutions of the sole Shareholder passed on 31 January 2004:

- (i) the authorised share capital of the Company was increased from HK\$1,700,000 to HK\$100,000,000 by the creation of an additional 983,000,000 Shares;
- (ii) conditional on (aa) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued by the Company as mentioned in this prospectus; and (bb) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s), by the Underwriters) and not being terminated in accordance with the terms of Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
 - (A) the Share Offer was approved and the Directors were authorised to allot and issue the New Shares and to approve the transfer of the Sale Shares pursuant thereto; and
 - (B) conditional further on the Listing Committee granting approval of the listing of, and permission to deal in, the Shares falling to be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme, the Share Option Scheme were approved and adopted and the Directors were authorised to grant options thereunder to allot, issue and deal with Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme; and
 - (C) conditional further on the share premium account of the Company being credited as a result of the New Issue, HK\$22,300,000 of such amount was directed to be capitalised and applied in paying up in full at par 223,000,000 Shares for allotment and issue to holders of Shares on the register of members of the Company as at 5 February 2004 (or as they may direct) in proportion as nearly as possible to their then respective shareholdings; and

- (D) a general unconditional mandate was given to the Directors to allot, issue and deal with additional Shares or securities convertible into Shares in the unissued share capital of the Company, including the entering into any agreements or granting any options to do any of the foregoing, provided that the aggregate nominal amount of the share capital allotted or agreed to be allotted by the Directors pursuant thereto, otherwise than pursuant to a rights issue; or the exercise of any options which may be granted under the Share Option Scheme; or any allotment of Shares in lieu of the whole or part of the divided on Shares in accordance with the Articles, shall not exceed the sum of (AA) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue; and (BB) the aggregate nominal amount of the share capital of the Company purchased by the Company repurchased to the authority granted to the Directors as referred to in paragraph 1(c)(ii)(E) of this Appendix, such mandate to expire at the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held or when revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest;
- (E) a general unconditional mandate was given to the Directors authorising them to exercise all the powers of the Company to repurchase on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, in accordance with all applicable laws and regulations, such number of Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue, such mandate to expire at the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held or when revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest; and
- (iii) the Company approved and adopted the Articles in substitution for and to the exclusion of the then existing articles of association of the Company.

(d) Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the structure of the Group in preparation for the listing of the Shares on GEM. The reorganisation involved the following:

- (i) On 18 August 2002, Mr. Chi, Mr. Lin Pei Qiang (林培強) and Ms. Zou entered into an agreement to transfer all their respective equity interests in the registered capital of Youxi Greenland to Century Sunshine for an aggregate consideration of RMB10,500,000, which transfer was subsequently approved by 福建省尤溪縣對外貿易經濟合作局 (Bureau of Foreign Trade and Economic Co-operation of Youxi County, Fujian Province) on 25 September 2002.
- (ii) On 12 May 2003, Mr. Lin Pei Qiang (林培強) transferred 200 shares of HK\$1 each in the capital of Century Sunshine to Mr. Chi for HK\$2,000,000.
- (iii) On 30 January 2004, Mr. Chi and Ms. Zou transferred 800 shares and 200 shares of HK\$1 each in the capital of Century Sunshine to New Bright; and assigned loans of HK\$8,000,000 and HK\$2,000,000 extended to Century Sunshine respectively in consideration of, and in exchange for, the allotment and issue of an aggregate of 10 shares of US\$1 each in the capital of New Bright to Alpha Sino at the respective directions of Mr. Chi and Ms. Zou.
- (iv) On 30 January 2004, Alpha Sino transferred 20 shares of US\$1 each in the capital of New Bright to the Company in consideration of, and in exchange for, the allotment and issue of 16,000,000 Shares, credited as fully paid, to Alpha Sino, and the Company also credited as fully paid at par the 999,999 Shares allotted and issued, nil paid, on 11 March 2003.

(e) Changes in share capital of the subsidiaries of the Company

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

- (i) On 25 September 2002, 福建省尤溪縣對外貿易經濟合作局 (Bureau of Foreign Trade and Economic Co-operation of Youxi County, Fujian Province) approved the increase of the total registered capital of Youxi Greenland from RMB5,000,000 to RMB10,500,000.
- (ii) On 12 December 2002, New Bright was incorporated with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1 each.
- (iii) On 21 January 2003, 10 shares of US\$1 each in the capital of New Bright were allotted and issued, to Alpha Sino for cash at par.

Save as disclosed in this paragraph and paragraph 1(d) of this Appendix, there has been no alteration in the share capitals of any subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

(f) Repurchase by the Company of its own securities

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

(i) GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their equity securities subject to certain restrictions, the most important of which are summarised below:

(aa) Shareholders' approval

All proposed repurchases of securities on GEM by a company with a primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a particular transaction.

Note: On 31 January 2004, written resolutions of the sole Shareholder were passed whereby a general unconditional mandate was given to the Directors authorising any repurchase of Shares by the Company on GEM, or any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange, of up to 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue at any time until the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held or when is revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest (the "Buyback Mandate").

(bb) Source of funds

Repurchases must be funded out of funds legally available for the purpose.

Any repurchase will be made out of funds of the Company legally permitted to be utilised in this connection, including out of the profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the shares to be purchased must be provided for out of the profits of the Company or out of the Company's share premium

account, or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

(cc) Trading restrictions

The Shares proposed to be repurchased by a company must be fully-paid up. A maximum of 10% of the then issued share capital of the Company as at the date of the resolution granting the general mandate may be repurchased on GEM.

(ii) *Reasons for repurchase*

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

(iii) *Funding of repurchases*

- (aa) In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and the Articles and the applicable laws and regulations of Hong Kong and the Cayman Islands.
- (bb) The Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company. However, there might be a material adverse effect on the working capital requirements of the Company or the gearing level (as compared with the position disclosed in the accountants' report, the text of which is set out in Appendix I to this prospectus) in the event the Buyback Mandate is exercised in full.
- (cc) Exercise in full of the Buyback Mandate, on the basis of 320,000,000 Shares in issue immediately after the listing of the Shares on GEM, could result in up to 32,000,000 Shares being repurchased by the Company during the period from the date on which the Buyback Mandate was granted up to the conclusion of the next annual general meeting of the Company or the expiration of the period within which

the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held or when revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

(iv) *General*

- (aa) None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates, has any present intention, if the Buyback Mandate is exercised, to sell any Shares to the Company or any of its subsidiaries.
- (bb) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the GEM Listing Rules and the applicable laws and regulations of Hong Kong and the Cayman Islands.
- (cc) If as a result of a repurchase of Shares a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder, or group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences under the Takeovers Code as a result of a repurchase of securities made immediately after the listing of the Shares. The shareholding of Alpha Sino in the Company before and after the full exercise of Buyback Mandate would be 60.53% and approximately 67.26%.
- (dd) No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

(g) Registration under Part XI of the Companies Ordinance

The Company has established a place of business in Hong Kong at Room 2807, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and was registered on 19 June 2003 as an oversea company under Part XI of the Companies Ordinance. Mr. Shum has been appointed as agent of the Company for the acceptance of service of process in Hong Kong and any notice required to be served on the Company at the Company's principal place of business in Hong Kong stated above.

2. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**(a) Summary of material contracts**

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

- (i) an agreement dated 19 March 2002 between Youxi Greenland, Youxi Agriculture Credit Union (尤溪縣農村信用合作社聯合社) (“YACU”) as lender and Jia Hui as the guarantor pursuant to which parties agreed to extend the date for the repayment of a loan of RMB2,000,000 granted pursuant to a loan agreement dated 20 March 2000 to 21 March 2003 at an interest rate of 0.63% per month;
- (ii) a contract in Chinese dated 5 August 2002 between Jiang Le Lotus Foodstuff Co. Ltd. (將樂縣蓮花食品有限公司) (“Jiang Le Lotus Company”) and Sanming Century pursuant to which Jiang Le Lotus Company agreed to use certain organic fertilizers in the quantity of 3,000 tonnes supplied by Sanming Century on its land for a period from September 2002 to March 2003 for an aggregate consideration of RMB3,000,000;
- (iii) a processing and assembling agreement dated 25 December 2001 between Youxi Greenland and Fujian Luo Yuan Biological Engineering Co. Ltd. (福建省羅源縣開源生物工程有限公司) (“Luo Yuan”) pursuant to which Luo Yuan undertook to source the raw materials for the manufacture and packaging of 4,000 tonnes of “Lu Di” brand organic fertilizers for a period of 1 year starting from 1 January 2002 to 31 December 2002 for fees calculated under certain formulae provided in the agreement (the “Kaiyuan Agreement”);
- (iv) an equity transfer agreement dated 18 August 2002 between Mr. Chi, Mr. Lin Pei Qiang (林培強), Ms. Zou and Century Sunshine for the transfer of 100% interest in Youxi Greenland from Mr. Chi, Mr. Lin Pei Qiang (林培強) and Ms. Zou to Century Sunshine at an aggregate cash consideration of RMB10,500,000;
- (v) a supplemental agreement to the Kaiyuan Agreement dated 28 August 2002 between Youxi Greenland and Luo Yuan pursuant to which Luo Yuan undertook to source the raw materials for the manufacture and packaging of 6,000 tonnes “Lu Di” brand organic fertilizers for a period of 6 months from October 2002 to March 2003;



- (vi) a loan contract (借款合同) dated 10 March 2003 between Youxi Greenland as borrower, Agricultural Bank of China, Sanming Municipality Branch (中國農業銀行三明市分行) (“CAB”) as lender in respect of a loan of RMB5,000,000 granted by CAB to Youxi Greenland at an interest rate of 6.372% per annum from 10 March 2003 to 9 March 2004;
- (vii) a loan guarantee contract (保證借款合同) dated 13 March 2003 between Youxi Greenland as borrower, YACU as lender and Jia Hui as guarantor in respect of a loan of RMB2,000,000 granted by YACU to Youxi Greenland at an interest rate of 0.6% per month from 13 March 2003 to 12 March 2004;
- (viii) a loan guarantee contract (保證借款合同) dated 21 October 2003 between Youxi Greenland as borrower, YACU as lender and Jia Hui as guarantor in respect of a loan of RMB800,000 granted by YACU to Youxi Greenland at an interest rate of 0.57% per month;
- (ix) an agreement dated 30 January 2004 between Mr. Chi, Ms. Zou and New Bright for the acquisition of an aggregate of 1,000 ordinary shares of HK\$1 each in the capital of Century Sunshine, being the entire issued share capital of Century Sunshine; and loans of HK\$8,000,000; and HK\$2,000,000 extended to Century Sunshine by Mr. Chi and Ms. Zou respectively (the “Loans”), in exchange for, and in consideration of, the allotment and issue of an aggregate of 10 shares of US\$1 each in the capital of New Bright, credited as fully paid as to 8 shares to Mr. Chi, 2 shares to Ms. Zou or their respective nominees;
- (x) a deed of assignment dated 30 January 2004 between Mr. Chi, Ms. Zou, New Bright and Century Sunshine pursuant to which Mr. Chi and Ms. Zou assigned to New Bright all their right, title and interest in and benefit to the Loans;
- (xi) an agreement dated 30 January 2004 made between the Company and Alpha Sino for the acquisition of an aggregate of 20 shares of US\$1 each in the capital of New Bright, being the entire issued share capital of New Bright in exchange for, and in consideration of, the allotment and issue of an aggregate of 16,000,000 Shares to Alpha Sino or its respective nominees and the crediting as fully paid at par an aggregate of 999,999 Shares allotted and issued, nil paid on 11 March 2003;
- (xii) a deed dated 31 January 2004 between Mr. Chi, Ms. Zou and Century Sunshine in respect of the assignment of an aggregate of RMB3,266,000 interest-free and unsecured loans (due from Youxi Greenland to Mr. Chi and Ms. Zou) from Mr. Chi and Ms. Zou to Century Sunshine;

- (xiii) a deed of non-competition dated 31 January 2004 executed by the Initial Management Shareholders, Jia Hui, Fei Li Gao and 福州名將文化傳播有限公司 (Fuzhou Ming Jiang Cultural Communication Co., Ltd.) in favour of the Group as referred to in sub-section headed “Connected Transactions” under the section headed “Business of the Group” in this prospectus;
- (xiv) the Fertilizer Sales Agreement as referred to in the section headed “Waiver from strict compliance with the GEM Listing Rules and the Companies Ordinance” in this prospectus;
- (xv) the Sponsor’s Agreement;
- (xvi) a deed of indemnity dated 4 February 2004 given by each of the Covenantors in favour of the Group in respect of any claims for taxation including estate duty claims against any member of the Group as referred to in paragraph 5(a) of this Appendix; and
- (xvii) the Underwriting Agreement.

(b) Intellectual property rights of the Group

As at the Latest Practicable Date:

- (i) the Group has registered the following trade marks:

Trade Mark	Country of Registration	Registration Number	Class	Next Renewal Date
	PRC	1699105	31 (Note 1)	13 January 2012
	PRC	1970750	1 (Note 2)	6 December 2012

Notes:

- The products covered under the registration are fresh vegetables, compositae lactuca sativa (cabbage), tree, food plant (grain), plants, natural turf, botanical garden fresh herb, plant seeds, microbial strain.
- The products covered under the application are agricultural fertilizer, fertilizer preparing agents, animal fertilizer, soil-free culture medium (agriculture), compound fertilizer, humic substance surface fertilizer, plant fertilizer, plant growth regulator.

- (ii) the Group has registered the following utility model:

Utility Model Name	Country of Registration	Utility Model Number	Registration Date	Terms
生物有機肥混煉機 (Bio-organic fertilizer processor)	PRC	ZL01238800.9	20 February 2002	10 years

(iii) the Group has pending applications to register the following patents:

Patent Name	Country of Application	Application Number	Application Date
複合微生物菌劑 及生產方法 (Microbial compound fertilizer and its production method)	PRC	02138843.1	26 July 2002
液態複合微生物菌肥 及生產方法 (Liquefied microbial compound bacterial fertilizer and its production method)	PRC	02138844.X	26 July 2002
有機茶園專用肥 及工業生產方法 (Organic tea fertilizer and its production method)	PRC	02138845.8	26 July 2002
微生物活菌載體 及生產方法 (Microbial activated bacterial base material and its production method)	PRC	02138846.6	26 July 2002
腐殖酸有機肥 工業化生產技術 (Humic acid organic fertilizer industrial production technology)	PRC	02138847.4	26 July 2002
污水污泥生產 有機肥的方法 (Organic fertilizer production know-how through sewage sludge)	PRC	02138952.7	16 August 2002

(c) **Information about the Group's wholly foreign-owned enterprise and interest in a limited liability company established in the PRC**

The Group has interest in the following wholly foreign-owned enterprise and limited liability company:

(i) *Youxi Greenland*

Name of investor (attributable interest)	:	Century Sunshine (100%)
Economic nature	:	Wholly foreign-owned enterprise
Total investment	:	RMB15,000,000
Total registered capital	:	RMB10,500,000
Term	:	15 years from 25 October 2002 to 25 October 2017
Nature of business	:	Manufacturing and sale of agricultural organic fertilizers and humic acid organic fertilizers

(ii) *Sanming Century*

Name of Investor (attributable interest)	:	(1) Youxi Greenland (80%) (2) Chi Wen Qiang (池文強) (20%)
Economic Nature	:	Limited liability company
Total registered capital	:	RMB5,000,000
Term	:	10 years from 16 June 2000 to 15 June 2010
Nature of business	:	Development of agricultural technology, supply of agricultural products, consultancy on agricultural techniques, purchase and sale of agricultural bio-products, research and development in organic food, development of organic agriculture, production and sale of microbial compound and fertilizers facilities.

3. FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

(a) Disclosure of Interests and Long and Short Positions

- (i) Immediately following the completion of the Share Offer and the Capitalisation Issue (taking no account of Shares which may be taken up under the Share Offer and Shares falling to be issued upon exercise of any options that may be granted under the Share Option Scheme) the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) once the Shares are listed on GEM or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed on GEM or which will be required, pursuant to rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange once the Shares are listed on GEM (assuming that their interests and short positions will remain unchanged after the Latest Practicable Date) will be as follows:

(aa) Long positions in Shares

Name	Number of Shares			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Chi	–	–	193,696,970 (Note 1)	–
Mr. Shum	–	–	30,303,030 (Note 2)	–
Ms. Wong	–	–	30,303,030 (Note 3)	–

Notes:

- Mr. Chi is beneficially interested in 80% of the entire issued share capital of Alpha Sino which in turn will hold 193,696,970 Shares immediately following the completion of the Share Offer and the Capitalisation Issue. The interests of Mr. Chi are accordingly “corporate interests” as described in Section 344 of the SFO.
- Mr. Shum is beneficially interested in 50% of Go Modern Limited which in turn holds 30,303,030 Shares immediately following the completion of the Share Offer and the Capitalisation Issue. The interests of Mr. Shum are accordingly “corporate interests” as described in Section 344 of the SFO.

3. Ms. Wong is beneficially interested in 50% of Go Modern Limited which in turn holds 30,303,030 Shares immediately following the completion of the Share Offer and the Capitalisation Issue. The interests of Ms. Wong are accordingly "Corporate interests" as described in Section 344 of the SFO.

(bb) *Long positions in the shares of Alpha Sino*

Name	Number of Shares of Alpha Sino			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Chi	8 shares of US\$1 each	–	–	–
Ms. Zou	2 shares of US\$1 each	–	–	–

- (ii) Each of Mr. Chi, Mr. Shum and Professor Zhou has entered into a director's service agreement dated 31 January 2004 with the Company under which each has been appointed to act as an executive Director for an initial term of three years commencing from the Listing Date, and will continue thereafter until the agreement is terminated by either party giving to the other party not less than three calendar months' notice in writing. Each of these executive Directors is entitled to the basic salary set out below (subject to an annual increment after 31 December 2004 at the discretion of the Board). In addition, each of the executive Directors is also entitled, in respect of the financial year ending 31 December 2004 and each financial year thereafter, to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors in respect of any financial year of the Company may not exceed 5% of the audited consolidated net profits of the Group (after taxation and minority interests and the payment of such management bonuses but before extraordinary and exceptional items) in respect of that financial year. An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary, the discretionary bonus or other benefits or allowances payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Chi	HK\$60,000
Mr. Shum	HK\$300,000
Professor Zhou	HK\$60,000

- (iii) The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group for the year ended 31 December 2002 was approximately HK\$31,000, representing salaries and allowances.
- (iv) The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group for the year ended 31 December 2003 was approximately HK\$284,000 representing salaries and allowances.

- (v) Conyers Dill & Pearman, Cayman (the Company's Cayman Islands legal advisors) will receive normal professional fees in connection with matters relating to the Share Offer.
- (vi) The estimated aggregate remuneration payable to and benefit in kind receivable by the executive Directors (i.e. Mr. Chi, Mr. Shum and Professor Zhou), are HK\$420,000 in respect of the year ending 31 December 2004 under the arrangements currently in force.

(b) Substantial shareholder

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue, the persons/companies (not being a Director) who have interests or short positions in the shares or underlying shares of the Company (within the meanings of the SFO) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (taking no account of Shares which may be taken up under the Share Offer and Shares falling to be issued upon exercise of any options which may be granted under the Share Option Scheme) are as follows:

Long positions in Shares

Name	Number of Shares	Percentage of holding of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue
Alpha Sino (<i>Note 1</i>)	193,696,970	60.53%
Go Modern Limited (<i>Note 2</i>)	30,303,030	9.47%

Notes:

- The entire issued share capital of Alpha Sino is beneficially owned as to 80% and 20% by Mr. Chi and Ms. Zou, respectively.
- The entire issued share capital of Go Modern Limited is beneficially owned as to 50% each by Mr. Shum and Ms. Wong.

(c) Personal guarantee

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, none of the Directors has provided any personal guarantee as security for any debts and liabilities incurred by any member of the Group.

(d) Agency fees or commissions received

The Underwriters will receive a commission of 3.5% of the Offer Price of all the Offer Shares under the Share Offer, out of which they will pay any sub-underwriting commission. The Sponsor and Watterson Asia will receive financial advisory and documentation fees and be reimbursed certain expenses. Such commission, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Share Offer, which are estimated to amount in aggregate to approximately HK\$13,000,000, will be payable by Vendor and the Company in the proportion of approximately 16.7% and 83.3% respectively.

(e) Related party transactions

There were various related party transactions between the Group and various related parties during the two years ended 31 December 2002 and the eight months ended 31 August 2003, details of which are set out in note 25) headed “Related party transactions” in the paragraph headed “II. Notes to the Combined Financial Information” of the accountants’ report, the text of which is set out in Appendix I to this Prospectus and paragraphs 1(d) and 2(a) of this Appendix.

(f) Disclaimers

Save as disclosed herein:

- (i) none of the Directors has any interest or short position in the shares or underlying shares of the Company or any associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) once the Shares are listed or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein once the shares are listed or will be required, pursuant to rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, once the Shares are listed on GEM;
- (ii) none of the Directors nor any of the experts whose names are listed in the paragraph headed “Consents of experts” of this Appendix has any direct or indirect interests in the promotion of, or in any assets which have been acquired or disposed of by or leased to any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group;

- (iii) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (iv) taking no account of Shares which may be taken up under the Share Offer, the Directors are not aware of any person who will, immediately following the completion of the Share Offer and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;
- (v) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (vi) none of the experts whose names are listed in the paragraph headed “Consents of experts” of this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

4. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a written resolution of the sole Shareholder passed on 31 January 2004:

(a) Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to selected Participants (as defined in paragraph 4(b) of this Appendix) as incentive and/or rewards for their contribution and support to the Group or any entity in which any member of the Group holds any equity interest (“Invested Entity”).

(b) Who may join

The Board may, at its discretion, invite any person belonging to any of the following classes of participants (individually, a “Participant”) to take up options to subscribe for Shares at a price calculated in accordance with paragraph 4(c) of this Appendix.

- (i) any full-time employee of the Company or any of its subsidiary or any Invested Entity, including (without limitation) any executive director of the Company, any of its subsidiary or any Invested Entity, who is in full time employment of the Company, any of its subsidiary or any Invested Entity (individually, an “Employee”);
- (ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiary or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technical support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) joint venture partner or counter-party to any business operation or business arrangements of the Group,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

The offer of grant of options is open for acceptance by the offerees of such grant of options for 28 days from the date (being a day on which the Stock Exchange is open for the business of dealings in securities (the “business day”)) of offer of the option (but not later than the date of the tenth anniversary of the date on which the Share Option Scheme becomes unconditional (which is expected to be on or before the Listing Date) or the date of termination of the Share Option Scheme, whichever is the earlier) (the “Date of Grant”). Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant.

(c) Price of Shares

The subscription price for Shares under the Share Option Scheme shall be a price notified by the Board to a participant (subject to any adjustments made pursuant to paragraph 4(o) of this Appendix) and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Date of Grant which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of a Share. Without prejudice to the generality of the foregoing, the Board may grant options in respect of which the subscription price is fixed at different prices for different periods during the Option Period (as defined in paragraph 4(g) of this Appendix) provided that the subscription price for each of the different periods shall not be less than the subscription price determined in the aforesaid manner.

(d) Maximum number of Shares

- (i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes for the time being of the Company shall not exceed 30% of the Shares in issue from time to time. No Option may be granted under the Share Option Scheme and any other schemes for the time being of the Company if this will result in the maximum number of Shares referred to in this paragraph 4(d)(i) being exceeded. Options lapsed or cancelled in accordance with the terms of Share Option Scheme or any other schemes for the time being of the Company shall not be counted for the purpose of calculating of the said 30% limit;
- (ii) subject to paragraphs 4(d)(i), 4(d)(iii) and 4(d)(iv), the total number of Shares available for issue upon exercise of all outstanding options which may be granted under the Share Option Scheme and any other schemes for the time being of the Company must not, in aggregate, exceed 32,000,000 Shares, representing 10% of the Shares in issue as the date on which the Share Option Scheme becomes unconditional (which is expected to be on or before the Listing Date) (the "Scheme Mandate Limit") unless an approval by the Shareholders at general meeting has been obtained pursuant to paragraph 4(d)(iii) of this Appendix. The Company may seek the approval of the Shareholders in general meeting to refresh the Scheme Mandate Limit and a circular shall be issued to the Shareholders;

- (iii) the Company may seek the approval of the Shareholders in general meeting for “refreshing” the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes for the time being of the Company as “refreshed” must not exceed 10% of the total number of Shares in issue as at the date of approval of the Shareholders, provided that options previously granted under the Share Option Scheme and any other schemes for the time being of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme and any other schemes for the time being of the Company) will not be counted for the purposes of calculating the limit as “refreshed”. For the purpose of seeking the approval of the Shareholders under this paragraph 4(d)(iii), the Company shall issue a circular to the Shareholders containing the information required under rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under rule 23.02(4) of the GEM Listing Rules; and
- (iv) the Company may seek separate approval of the Shareholders in general meeting to grant options beyond the Scheme Mandate Limit, provided that the options in excess of the Scheme Mandate Limit are granted only to Participants specifically identified by the Company before such approval is sought and the Company must issue a circular to the Shareholders containing a general description of the specified offerees, the number and terms of the options to be granted, the purpose of granting such options to the offerees with an explanation as to how the terms of the options serve such purpose and the information required under rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under rule 23.02(4) of the GEM Listing Rules.

(e) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme and any other schemes for the time being of the Company (including both exercised and outstanding options) in any 12-month period up to the Date of Grant to each grantee must not exceed 1% of the aggregate number of Shares for the time being in issue. Where any further grant of options to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such grantee (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the number of Shares for the time being in issue, such further grant must be separately approved by the Shareholders in general meeting with such grantee and his/her associates abstaining from voting. The Company shall issue a circular to the Shareholders disclosing the identity of the grantees, the number and terms of the options granted and to be granted (including options previously granted), the information required under rule 23.02(2)(d)

of the GEM Listing Rules and the disclaimer required under 23.02(4) of the GEM Listing Rules. The number and terms (including the subscription price) of the options to be granted to such grantees must be fixed before the Shareholders' approval is sought and the date of the meeting of the Board for proposing such further grant shall be taken as the Date of Grant for the purpose of calculating the subscription price.

(f) Grant of options to connected persons

- (i) Any grant of options to a connected person (as defined in the GEM Listing Rules) or its associates shall be approved by all independent non-executive Directors (excluding any independent non-executive Director who is a grantee of the options in question);
- (ii) where any grant of options to a connected person (as defined in the GEM Listing Rules) who is also a substantial shareholder (as defined in the GEM Listing Rules) or an independent non-executive Director or their respective associates, would result in the Shares issued and to be issued upon exercise of the options granted and to be granted (including all the exercised, cancelled and outstanding options) to such connected person in any 12-month period immediately preceding and including the Date of Grant, and would entitle such person to receive more than 0.1% of the Shares in issue for the time being and the aggregate value (based on the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange at each Date of Grant) of which is in excess of HK\$5,000,000, such grant of options must be approved (voting by way of poll) by Shareholders in general meeting. All connected persons (as defined in the GEM Listing Rules) of the Company shall abstain from voting in such general meeting (except where any such connected person intends to vote against the proposed grant and his/her intention to do so has to be stated in the circular to Shareholders) in connection with obtaining the aforesaid approval;
- (iii) for the purposes of approving the proposed grant of options as described under paragraph 4(f)(i) and (ii) of this Appendix, the Company shall issue a circular to Shareholders explaining the proposed grant, disclosing the number and terms (including the subscription price) of the options to be granted to each grantee which must be fixed before the Shareholders' meeting, and containing a recommendation from the independent non-executive Directors to the independent Shareholders on whether or not to vote in favour of the proposed resolution for approving the proposed grant and the information required under rules 23.02(2)(c) and (d) of the GEM Listing Rules and the disclaimer required under rule 23.02(4) of the GEM Listing Rules; and

- (iv) any change in the terms of any options granted to a grantee who is a substantial shareholder (as defined in the GEM Listing Rules) of the Company, an independent non-executive Director or their respective associates shall be approved by the Shareholders in general meeting and such grantee and his/her associates shall abstain from voting in such general meeting.

(g) Time of exercise of option

There is no general requirement that an option must be held for any minimum period before it can exercise but the Board is empowered to impose at its discretion such minimum period at the time of grant of any particular option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of 10 years commencing on the Date of Grant and expiring on the last day of the 10-year period (the “Option Period”).

(h) Performance targets

Unless the Board otherwise determines and states in the offer of the grant of those options to a grantee, a grantee is not required to achieve any performance targets before any of his/her options granted under the Share Option Scheme can be exercised.

(i) Rights are personal to grantee

An option may not be transferred or assigned and is personal to the grantee.

(j) Rights on ceasing to be a Participant

If the grantee of an option ceases to be a Participant by reason of other than his/her death or (where in the case of an Employee) the termination of his/her employment on the ground of misconduct or certain other grounds, the grantee shall be entitled from the date of such cessation until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of one month following the date of such cessation (where in the case of an Employee, which date shall be the last actual working day with the Company or the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not) to exercise the option up to his/her entitlement at the date of cessation (to the extent not already exercised or to the extent specified in a notice in writing to the Company stating the option is thereby exercised and the number of Shares in respect of which it is exercised (the “Exercise Notice”). If the Grantee who is not an Employee ceases to be a Participant as and when determined by the Board by resolution for any reason other than his/her death, the Board may by written notice to such grantee within one month from the date of such cessation determine the period within which the option (or such remaining part thereof) shall be exercisable following the date of such cessation.

(k) Rights on death

If the grantee of an option ceases to be a Participant by reason of death, his/her legal personal representative(s) shall be entitled within a period of 12 months from the date of death to exercise the option in full (to the extent not already exercised) or in part (to the extent specified in the Exercise Notice).

(l) Rights on dismissal

If the grantee (as an Employee) ceases to be a Participant by reason of the termination of his/her employment or directorship on one or more of the grounds specified in paragraph 4(u)(v) of this Appendix and the grantee has exercised the option in whole or in part pursuant to the terms and conditions of the Share Option Scheme, but Shares have not been allotted to him/her, the grantee shall be deemed not to have so exercised such option and the Company shall return to the grantee the amount of the subscription price for the Shares in respect of the purported exercise of such option.

(m) Cancellation of options

Any options granted but not exercised may be cancelled if the grantee so agrees and new options may be granted to the same grantee provided such new options fall within the limits prescribed by paragraph 4(d) of this Appendix and otherwise comply with the terms of the Share Option Scheme.

(n) Termination of the Share Option Scheme

The Company by ordinary resolution in general meeting or by resolution of the Board may at any time terminate the operation of Share Option Scheme and in such event no further options shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(o) Effect of alteration to capital

In the event of any alteration in the capital structure of the Company while any option remains exercisable, whether by way of capitalisation of profits or reserve, rights issue, consolidation, sub-division or reduction of the share capital of the Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to the option so far as not being exercised and/or the subscription price subject to the option so far as not being exercised; and/or the maximum number of

Shares referred to in paragraph 4(d) of this Appendix to which the option relates; and/or the method of exercise of the option, as the Company's independent financial adviser or auditors shall at the request of the Company certify in writing to the Board either generally or with regard to any particular grantee to be in their opinion fair and reasonable, provided that any such alteration shall be made on the basis that the proportion of the issued share capital of the Company to which a grantee is entitled after such alteration will remain the same as that to which he/she was entitled before such alteration but no such alteration, shall be made to the extent that the effect of which would be to enable any Share to be issued at less than its nominal value and the issue of Shares or other securities of the Group as consideration in a transaction shall not be regarded as a circumstances requiring adjustment. In respect of any such alterations, other than any made on a capitalisation issue, the Company's independent financial adviser or auditors must confirm to the Board in writing that the alterations satisfy the relevant requirements of the GEM Listing Rules.

(p) Rights on general offer

If a general offer (including any takeover) is made to all the holders of Shares and such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional. Subject to the above, an option will lapse automatically (to the extent not exercised) on the expiry of the above 14-day period.

(q) Rights on winding up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall on the same date or as soon as practicable after it despatches such notice to its member give notice thereof to all grantees and thereupon, each of the grantees (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of the Company by giving the Exercise Notice to the Company, accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the option is exercised whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(r) Rights on compromise or arrangement

If, pursuant to the Companies Law, a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees (or to their personal representatives) on the same day or as soon as practicable after it despatches to its members or creditors a notice summoning a meeting to consider such compromise or arrangement, and thereupon the grantee (or his/her legal personal representative(s)) shall be entitled to exercise his/her options in full (to the extent not already exercised) or in part (to the extent specified in the Exercise Notice) at any time not later than two business days prior to the date of the proposed meeting directed to be convened by the Grand Court of the Cayman Islands or any other court of competent jurisdiction for the purposes of considering such compromise or arrangement and the Company shall, as soon as possible and in any event not later than 12:00 noon on the day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the relevant grantee which falls to be allotted and issued on such exercise, credited as fully paid and register the grantee as holder thereof. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent they have not been so exercised, lapse and determine.

(s) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date which the option is duly exercised or; if that date falls on a day when the register of members of the Company is closed, the first Business Day of the re-opening of the register of member and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the said exercise date. A Share allotted upon the exercise of an option shall not carry any voting rights until the name of the grantee has been duly entered into the register of members of the Company as the holder thereof.

(t) Period of option scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional (which is expected to be on or before the Listing Date) and expiring on the earlier of the date on which 10 years from the date on which the Share Option Scheme becomes unconditional expires; and the date on which the Share Option Scheme is terminated under paragraph 4(n) of this Appendix.

(u) Lapse of option

An option shall lapse automatically and not to be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period (subject to the provision of the Share Option Scheme);
- (ii) the expiry of any of the periods or dates referred to in paragraphs 4(j), (k), (l), (p) or (q) of this Appendix;
- (iii) the date of the commencement of the winding-up of the Company referred to in paragraph 4(q) of this Appendix;
- (iv) the proposed compromise or arrangement referred to in paragraph 4(r) of this Appendix becomes effective;
- (v) the date on which the grantee (as an Employee) ceases to be a Participant by reason of the termination of his/her employment on any one or more of the grounds that he/she has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his/her employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company or any of its subsidiaries or any Invested Entity. A resolution of the Board, the board of directors of the relevant subsidiary of the Company or the Invested Entity to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph 4(u)(v) of this Appendix shall be conclusive and binding on the grantee, and where appropriate, his/her legal personal representative(s);
- (vi) the date on which the grantee's commits a breach of the provisions referred to in paragraph 4(i) of this Appendix; or
- (vii) subject to paragraph 4(j) of this Appendix, the date the grantee ceases to be a Participant for any other reason.

(v) Alterations of the Share Option Scheme

- (i) The Share Option Scheme may be altered at any time in any respect by resolution of the Board without the approval of Shareholders except that certain specified provisions of the Share Option Scheme (relating to the

matters referred to in rule 23.03 of the GEM Listing Rules) shall not be altered to the advantage of the grantees or prospective grantees (as the case may be) except with the prior sanction of a resolution by the Shareholders who are not grantees in general meeting, with any persons to whom or for whose benefit any Shares may be issued under the Share Option Scheme and their associates abstaining from voting.

- (ii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must first be approved by the Shareholders, except where the alterations take effect automatically under the existing provisions of the Share Option Scheme.
 - (iii) The amended terms of the Share Option Scheme or the options must comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.
 - (iv) Any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must first be approved by the Shareholders in general meeting.
- (w) Restrictions on the time of grant of options**
- (i) For so long as the Shares are listed on GEM, the Board may not grant any option after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published in the newspapers or announced pursuant to the requirements of the GEM Listing Rules. In particular, the Board is prohibited from granting any option during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's quarterly, interim or annual results; and (bb) the deadline for the Company to publish its quarterly, interim or annual results announcement under the GEM Listing Rules, and ending on the date of the results announcement provided that the period during which no option may be granted will cover any period of delay in the publication of a results announcement.
 - (ii) The Board may not grant any option to a Participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to the minimum standard of good practice with respect to securities transactions by Directors prescribed by rules 5.41 to 5.59 of the GEM Listing Rules or any other code or securities dealing restrictions adopted by the Company.

(x) Present status of the Share Option Scheme

- (i) The Share Option Scheme was approved and adopted by the written resolutions of the sole Shareholder passed on 31 January 2004.
- (ii) The Share Option Scheme is conditional on the Listing Committee granting approval of any options which may be granted thereunder and the granting of the approval of the listing of, and permission to deal in, the Shares to be issued as mentioned therein.
- (iii) Unless the context otherwise requires, references to “Shares” in this section include shares in the Company of any other nominal amount as shall result from a sub-division or a consolidation of such shares from time to time.
- (iv) As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. Application has been made to the Listing Committee for the granting of the approval of the listing of, and permission to deal in, the Shares which fall to be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.

5. OTHER INFORMATION**(a) Estate duty and tax indemnities**

Pursuant to a deed of indemnity dated 4 February 2004 and executed by the Covenantors in favour of the Company, each of the Covenantors jointly and severally agrees and undertakes to indemnify and keep indemnified the Company (for itself and as trustee for the other members of the Group) for (a) any liability for Hong Kong estate duty which might be payable by any member of the Group in accordance with the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong), and (b) any tax liability of the Group arising on or before the date on which the conditions stated in the Underwriting Agreement are fulfilled or waived (the “Effective Date”) save that:

- (i) provision has been made for such tax liability in the audited accounts of the Group or any member of the Group up to 31 August 2003 and provision for which will be made in the audited accounts of the Group or any member of the Group for the period from 1 September 2003 to the Effective Date on a basis consistent with that made in the audited accounts of the Group up to 31 August 2003;
- (ii) such tax liability falls on any member of the Group in respect of its current accounting periods or any accounting period commencing on or after the Effective Date;

- (iii) provision or reserve made for tax liability in the audited accounts of the Group or any member of the Group up to 31 August 2003 are finally established to be an over-provision or an excessive reserve provided that the amount established to be the excessive portion of the over-provision or the excessive reserve shall only be applied to reduce the Covenantors' liability in respect of tax liability up to 31 August 2003; or
- (iv) any increase in the claim for tax liability or the amount of any increase in any claim to the extent that such claim or such increased amount of the claim arises or is incurred as a result of the imposition of tax liability as a consequence of any change in the law or in the rate of Taxation coming into force on or after the Effective Date with retrospective effect.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands.

(b) Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

(c) Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee for the granting of the approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Offer Shares which fall to be issued upon the exercise of options that may be granted under the Share Option Scheme.

(d) Preliminary expenses

The estimated preliminary expenses of the Company are approximately US\$2,650 and are payable by the Company.

(e) Agency fees or commissions granted

The Underwriters will receive an undertaking commission as mentioned in the sub-section headed "Underwriting arrangements and experts" in the section of this prospectus headed "Underwriting".

(f) Promoter

- (i) The Company does not have any promoter for the purposes of the GEM Listing Rules.
- (ii) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in paragraph 5(f)(i) of this Appendix in connection with the Share Offer or the related transactions disclosed in this prospectus.

(g) Qualification of experts

The followings are the qualifications of the experts who have given their opinions or advice which are contained in this prospectus:

Name of expert	Qualifications
CSC Asia Limited	a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in Schedule 5 to the SFO and a qualified sponsor for GEM
Watterson Asia Limited	a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as set out in Schedule 5 to SFO
PricewaterhouseCoopers	Certified public accountants
Midland Surveyors Limited	Chartered surveyors
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
Kang Da Law Office	Registered law firm in the PRC

(h) Consents of experts

CSC Asia Limited, Watterson Asia, PricewaterhouseCoopers, Midland Surveyors Limited, Conyers Dill & Pearman, Cayman and Kang Da Law Office have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names in the form and context in which they are respectively included.

(i) **Binding effect**

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

(j) **Taxation of holders of Shares**

(i) *Hong Kong*

Dealings in Shares will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty the current rate of which is HK\$2 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong any also be subject to Hong Kong profits tax.

Shares on the Hong Kong branch register of members are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares on the Hong Kong branch register of members.

(ii) *Cayman Islands*

Under the present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

(iii) *Professional tax advice recommended*

Intending holders of Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for purchasing, holding or disposing of or dealing in Shares or exercising any right attaching to them. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from of any right attaching to Shares.

(k) Miscellaneous

- (i) Save as disclosed herein:
 - (aa) within the two years preceding the date of this prospectus:
 - (A) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - (B) no commission, discounts' brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (bb) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (cc) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial trading position of the Group in the 12 months preceding the date of this prospectus.
- (ii) Save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Group since 31 August 2003 (being the date to which the latest audited combined financial statements of the Group were made up).
- (iii) The Company has no founder shares, management shares or deferred shares.
- (iv) The register of members of the Company will be maintained in the Cayman Islands by Bank of Butterfield International (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with, and registered by, the Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (v) All necessary arrangements have been made to enable the Shares to be admitted to CCASS.

(l) Particulars of the Vendor

The Vendor is a company incorporated in BVI on 18 December 2002 with limited liability and entire issued share capital of the Vendor is legally and beneficially owned, as to 80% by Mr. Chi and 20% by Ms. Zou. The registered office of the Vendor is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** application forms, the written consents referred to under the paragraph headed “Consents of experts” in the section headed “Other information” in Appendix V to this prospectus, a statement of adjustments prepared by PricewaterhouseCoopers in arriving at the figures set forth in their accountants report, a statement of the name, address and description of the Vendor and copies of the material contracts referred to under the paragraph headed “Summary of material contracts” in the section headed “Further information about the business of the Group” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION

Copies of the following documents will be available for public inspection at the offices of So Keung Yip & Sin at 17th Floor, Standard Chartered Bank Building, 4 Des Voeux Road Central, Hong Kong during normal business hours up to and including 19 February 2004:

- (a) the memorandum of association of the Company and the Articles;
- (b) the accountants’ report on the Company prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;
- (c) the audited accounts of each of the Company’s subsidiaries (except New Bright and Century Sunshine) for each of the two financial years ended 31 December 2002 and the audited consolidated accounts of Youxi Greenland and its subsidiary for the two financial years ended 31 December 2002 and the eight months ended 31 August 2002 and 2003;
- (d) the letters relating to the profit estimate for the financial year ended 31 December 2003, the text of which is set forth in Appendix II to this prospectus;
- (e) the letter, summary of valuations and valuation certificates relating to the properties of the Group prepared by Midland Surveyors Limited, the texts of which are set out in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the letter prepared by Conyers Dill & Pearman, Cayman summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
AND DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION**

- (h) the letter prepared by Conyers Dill & Pearman, Cayman in respect of the liability of the Group in the Cayman Islands to estate duty;
- (i) the PRC legal opinion referred to in Appendix III to this prospectus;
- (j) the material contracts referred to under “Summary of material contracts” in the section headed “Further information about the business of the Group” in Appendix V to this prospectus;
- (k) the executive Directors’ service agreements referred to under “Further information about the Directors, management, staff, substantial shareholders and experts” in Appendix V to this prospectus;
- (l) the Share Option Scheme;
- (m) the written consents referred to under “Consents of experts” in the section headed under “Other information” in Appendix V to this prospectus; and
- (n) the statement of the name, address and description of the Vendor.