

## RISK FACTORS

*Potential investors should carefully consider all information set out in this document and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.*

### RISKS RELATING TO THE GROUP'S OPERATIONS

#### **The acquisition of drying yards as one of the Group's future plans may or may not be implemented**

As stated in the paragraph headed "Thai Arrangements" under the section headed "History and development" of this document, Alush Thailand is owned as to 99.996% by Art Rich and the remaining 0.004% held equally by each of Alternative View, Artwell Enterprises, Artwell Tapioca, Artsun Macao, Art Ocean and All High, respectively; while Global Property is controlled as to 99.95% by Art Rich, and the remaining 0.05% held equally by each of Alternative View, Artwell Enterprises, Artwell Tapioca, Art Ocean and All High, respectively. Among the 99.95% interest owned and/or controlled by Art Rich in Global Property, 51% is effected through the Aja-Art Rich Arrangements.

At present, the Directors intend to apply approximately [●]% of the net proceeds of the Share Offer for establishment of warehousing facilities and acquisition or leasing of drying yards in Thailand, further details of which are set out in the paragraph headed "Use of proceeds" in the section headed "Future plans and use of proceeds" of this document.

As advised by the Company's Thai legal advisers, pursuant to the Land Code of Thailand, the Group may own land in Thailand if it has obtained an investment promotion status from the Office of the Board of Investment or has located its businesses in any industrial estate under the supervision of the Industrial Estate Authority of Thailand. The Company's Thai legal advisers have also advised that the preliminary requirement for activities which are eligible for an investment promotion status as stated in the Investment Promotion Act, before investment promotion status could be granted by the Office of the Board of Investment, includes those activities which (i) are important and beneficial to the economic and social development, and security of the country; (ii) involve production for export; (iii) have high content of capital, labour or service; or (iv) utilise agricultural products or natural resources as raw materials, provided that in the opinion of the Office of the Board of Investment, they are non-existent in Thailand, or existent but inadequate, or use out-of-date production processes. The Company's Thai legal advisers have advised that it is feasible for the Office of the Board of Investment to grant to both Alush Thailand and Global Property the investment promotion status provided that the Board of Investment determines that their business activities are beneficial to the country and/or helping the economy of Thailand, particularly the promotion of the agricultural products of Thai farmers. The Company's Thai legal advisers have also advised that both Alush Thailand and Global Property are qualified to apply for permission to own land in industrial estate under the supervision of the Industrial Estate Authority in Thailand.]

As advised by the Company's Thai legal advisers, under the Foreign Business Act, a foreign company (being a company having its foreign national shareholders at 50% or more of the total issued shares) is prohibited to engage in the business of land trading in

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Thailand. As advised by the Company's Thai legal advisers, the Aja-Art Rich Arrangements are lawful, valid and legally effected, binding and enforceable under the relevant Thai laws. There are uncertainties as to whether there will not be any change of laws in future, whether the Aja-Art Rich Arrangements will be considered in compliance with the then applicable Thai laws, whether the governmental or judicial authorities in Thailand may in the future interpret the then or existing laws or regulations with the result that acquisition (or subsequent disposal) of land by the Group as drying yards would be deemed as "land trading" for the purposes of the Foreign Business Act, or with the result that the Aja-Art Rich Arrangements would be considered to be in violation of the Thai laws and regulations. In such circumstances, the Aja-Art Rich Arrangements may be required to be cancelled or revised and Global Property may be regarded as a foreign national company under the Foreign Business Act. If these events occur, or if Alush Thailand and Global Property are unable to obtain investment promotion status from the Office of the Board of Investment or if the Group is unable to locate suitable land in industrial estate for usage as drying yards, the Group's future plan of acquisition of drying yard in Thailand may not be implemented. There is also a risk that if there is any drying yard acquired by Global Property, it may be required to surrender the land with or without any compensation.

### **The Group sells one single product. Sudden decrease in market demand and/or the availability of substitute of cassava found for the Group's dried cassava chips would adversely affect the Group's business**

The Group sells one single product, that is, dried cassava chips. During the Track Record Period, all of the Group's revenue was generated from the sales of dried cassava chips. The range of application of dried cassava chips in the PRC includes consumable ethanol, animal feed, chemical products and ethanol fuel. Although the Directors expect the demand for dried cassava chips to increase as an alternative to corn in the production of ethanol fuel in the PRC, if there is a decrease in market demand and/or the availability of substitute of cassava in the PRC, the Group's operating results could be adversely affected.

### **Reliance on major customers in the PRC**

Sales to the Group's five largest customers accounted for approximately [65.1]%, [62.0]%, [57.2]% and [76.0]% of the Group's revenue in the respective three financial years ended 31 March 2008 and five months ended 31 August 2008, and sales to the Group's single largest customer accounted for approximately [24.5]%, [22.1]%, [19.0]% and [28.3]% of the Group's revenue in the respective years and five months ended 31 August 2008. During the Track Record Period, the Group's revenue was principally derived from sales to customers in the PRC. The Directors anticipate that sales of dried cassava chips in the PRC will continue to represent a significant portion of the Group's revenue in the near future. As a result, the Group's operating results and financial performance will be affected by any adverse changes in economic, political and social conditions in the PRC.

Whilst the Directors consider that the Group has established close business relationships with its principal customers in the PRC, there is no assurance that these customers will continue to place purchase orders with the Group in the future. If any of the Group's major customers ceases to purchase from the Group, its business and profitability would be adversely affected.

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### **Reliance on key suppliers in Thailand**

For each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, the Group's purchases of dried cassava chips from the Group's five largest suppliers accounted for approximately [49.2]%, [52.8]%, [50.2]% and [58.9]% of the Group's total purchases. At present, most of the Group's suppliers are located in Thailand. For each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, approximately [98.4]%, [99.2]%, [98.1]% and [100]%, respectively, of the dried cassava chips purchased by the Group was procured from Thailand. The Directors anticipate that the purchases of dried cassava chips in Thailand will continue to represent a significant portion of the Group's purchases in the near future. As a result, the Group's operating results and financial performance will be affected by any adverse changes in economic, political and social conditions in Thailand. Apart from the long-term supply contracts with the Group's largest supplier for the Track Record Period and a supplier in Laos, the Group does not have any long-term supply contract with its cassava chips and fresh cassava roots suppliers. If the Group fails to secure adequate quantities of dried cassava chips/fresh cassava roots on a timely basis, the Group's business and profitability may be adversely affected.

**The Group increases its level of inventory towards the end of the harvest season in order to keep adequate level of inventory for sales during the non-harvest season. Sudden decrease in demand for the Group's dried cassava chips may lead to slow-moving of inventories**

The inventory turnover days (being the average of opening and closing inventory balances divided by cost of sales and multiplied by 365 days) of the Group were approximately [76.9] days, [87.8] days, [55.0] days and [33.0] days respectively for each of the three financial years ended 31 March 2008 and five months ended 31 August 2008. If demand for the Group's dried cassava chips decreases or if there is a mismatch of inventory level and the orders on hand, the Group's inventory may accumulate and the Group's operations and liquidity may be adversely affected.

**The Group relies on the dry bulk vessels for shipping its product to the PRC. If it cannot arrange shipment for delivery of its product as scheduled, the Group's business would be adversely affected**

During the Track Record Period, the Group's dried cassava chips were shipped to the PRC from Thailand, Vietnam and Indonesia. Therefore, sea transportation is one of the important parts of the Group's business processes. The Group relies on its network of dry bulk vessels to arrange for sea transport of its goods. The Group generally enters into voyage charters with carriers which means that the Group hires the vessel for a one-way voyage between specific ports with a specified cargo at a negotiated rate of freight. Generally the charter parties entered into by the Group are voyage charters in respect of point-to-point voyage. Due to the cyclical nature of the shipping industry, the Group may be exposed to increased freight rates. Any increase in port fees, stevedoring expenses and bunker fuel prices will also increase the shipping costs of the Group as most of the charter parties are negotiated by the Group on a single voyage basis. Under the sale contracts of dried cassava chips, the price for each tonne of dried cassava chips is generally fixed at the

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time the contract is made, and the Group is responsible for all the shipping charges. If the Group is unable to pass any increase in freight rates to its customers, the Group's profitability will be adversely affected.

### **The Group's business, financial condition and operating results may be adversely affected by the volatility of prices of dried cassava chips and the interruption of supply or shortage of dried cassava chips**

The prices of dried cassava chips may be affected by market demand and supply, inclement weather conditions and other natural disasters. Any significant increase in the prices of the dried cassava chips sourced by the Group will have an adverse effect on the Group's profit margin. For example, the Group's monthly average purchase price of cassava chips at warehouses in 2006 fluctuated within the range of approximately HK\$[700] per tonne to approximately HK\$[790] per tonne, which was followed by a general uptrend from approximately HK\$[760] per tonne in January 2007 to approximately HK\$[1,300] per tonne in August 2008. Similarly, the Group's weighted average purchase price of dried cassava chips during each of the three financial years ended 31 March 2008 and the five months ended 31 August 2008 also fluctuated at approximately HK\$[740], HK\$[790], HK\$[1,100] and HK\$[1,300] respectively. The Group's average selling price of dried cassava chips in the PRC for each of the three financial years ended 31 March 2008 and the five months ended 31 August 2008 was approximately HK\$[980], HK\$[1,000], HK\$[1,400] and HK\$[1,700] respectively. For each of the three financial years ended 31 March 2008 and the five months ended 31 August 2008, the Group's gross profit margin was approximately [22.6]%, [24.3]%, [26.4]% and [22.1]%, respectively and its net profit margin was approximately [2.1]%, [4.2]%, [11.3]% and [1.4]%, respectively. The sustainability of the Group's profit margin depends on a number of factors, including the selling price and the procurement costs. In addition, the Group may also experience difficulties in obtaining dried cassava chips of acceptable quality and sufficient quantity on a timely basis due to shortage from its suppliers. If the Group is unable to pass on the increased cost to its customers by raising its selling prices, or overcome the interruption of sufficient supply of quality cassava chips, its business, financial condition and results of operations may be adversely affected.

### **Escalating oil price will increase the costs of transportation**

The majority of the Group's dried cassava chips are shipped under C.N.F. terms i.e. the Group has to pay the costs and freight necessary to bring the goods to the port of destination. For each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, the freight costs of importing goods to the PRC accounted for about [12.0]%, [13.4]%, [10.7]% and [11.1]% of the total sales of the Group in the respective years or period. Any increase in oil prices will increase the freight costs of the Group, and if the Group is unable to pass on these increased expenses to its customers, its profit margin may decrease and its financial conditions may be adversely affected.

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### **The Group may not be able to sustain its revenue and net profit levels and/or implement its expansion plan successfully**

For each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, the Group recorded revenue of approximately HK\$[740.9] million, HK\$[818.3] million, HK\$[903.6] million and HK\$[334.5] million respectively. During the same period, the net profit was approximately HK\$[15.3] million, HK\$[34.1] million, HK\$[101.9] million and HK\$[4.8] million respectively. The business of the Group was largely dependent on the demand for dried cassava chips from customers in the PRC, who are not obliged to place orders with the Group at historical level or at all. If the demand for dried cassava chips in the PRC decreases, it may result in significant loss of sales, and the business, financial condition and results of operation of the Group may be materially and adversely affected.

The Group plans to increase its purchases of dried cassava chips from other territories in Southeast Asia such as Laos and Cambodia. The Group also intends to expand its upstream operations by sourcing more fresh cassava roots and processing them into dried cassava chips. Whether the Group's plans can be successfully implemented is dependent upon a number of factors, including, amongst other things, its ability to manage such expansion and the availability of financial resources. The Group may also be subject to a variety of risks associated with conducting business in new geographical regions, including: political and economic instability; changes in diplomatic and trade relationships; staffing and managing regional operations; enforcing agreements in other countries; potentially adverse tax consequences resulting from operating in multiple jurisdictions with different tax laws; changes in tariffs and other barriers and restrictions. There can be no assurance that such factors will not require the Group to modify its current business practices and will not have a material adverse impact on the Group's business, financial condition and prospects. There is no assurance that the Group will be able to expand its upstream operations and/or operate the expanded business profitably. If the Group is unable to implement its expansion plan successfully, the Group's future operating results could be affected.

### **If the Group is unable to secure the supply of cassava in the next harvest season, the Group's profitability for the second half of its financial year will be adversely affected**

Generally, the harvest period for cassava roots commences in November and ends in March each year. Due to the variation of the availability of cassava in a year, the Group engages in a higher portion of direct sales (which has a lower gross profit margin than sales from warehouse) in the first half of a financial year. For the five months ended 31 August 2007, the Group recorded revenue and net profits of approximately HK\$[273.7] million and HK\$[27.7] million respectively, representing approximately [30.3]% and [27.2]% of the total revenue and net profits of the Group for the financial year ended 31 March 2008 respectively. If the Group is unable to secure the supply of cassava in the harvest season, the Group's profitability for the second half of its financial year will be adversely affected.

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### **Demand from customers may be affected by the recent economic tsunami and credit tightening**

The recent economic tsunami and credit tightening have adversely affected the US and the world economies. With a deteriorating worldwide economy, it is expected that the Chinese economy will be cooling down as exports to the US and Europe are rapidly softening and the demand for consumable alcohol and ethanol fuel may be diminished, which in turn may affect the demand for the Group's products. Should the impact of the financial tsunami affect the Group's customers, the demand for the Group's products may be significantly affected, which may adversely affect the Group's future profitability. In addition, the credit tightening environment may aggravate the interest expenses on the Group's bank borrowings, or the banks may even reduce the amount of or discontinue the banking facilities currently available to the Group, which may adversely affect the Group's business operations as the Group's operations are working capital intensive and the Group finances its working capital and capital expenditure requirements principally through net cashflow from operating activities and bank borrowings. If this economic downturn continues, the business operations of the Group could be adversely affected.

### **There is no assurance that the Alush Arrangements, the GP Arrangements or Aja-Art Rich Arrangements will be in compliance with Thai laws in the future**

The Group's two operating subsidiaries in Thailand, namely, Alush Thailand and Global Property are principally engaged in export of dried cassava chips and sourcing and processing of fresh cassava roots respectively. During the Track Record Period until the implementation of the Reorganisation as stated below, Mr. Chu controlled the two operating subsidiaries through his shareholding and the Alush Arrangements and GP Arrangements, respectively. Details of these arrangements and the reasons for such arrangements are set out in the paragraph headed "Thai Arrangements" under the section headed "History and development" in this document. As part of the Reorganisation, the Group acquired and owned the entire registered capital in Alush Thailand, while the Group has obtained control of the entire equity interest in Global Property (as to 49% by direct ownership and as to 51% through the Aja-Art Rich Arrangements). Details of the Aja-Art Rich Arrangements and the reasons for entering into such arrangement are set out in the paragraph headed "Thai Arrangements" under the section headed "History and development" in this document.

According to the Company's Thai legal advisers, the Alush Arrangements, the GP Arrangements and the Aja-Art Rich Arrangements are lawful, valid and legally effected, binding and enforceable under the then prevailing or existing Thai laws at the relevant time. However, there is no assurance that in future the Thai laws will not be changed and that the Aja-Art Rich Arrangements will in future be considered non-compliance with the then prevailing Thai laws. It is also not certain that whether governmental or judicial authorities in Thailand may in the future interpret the then prevailing or existing laws or regulations with the result that the Alush Arrangements, the GP Arrangements or the Aja-Art Rich Arrangements would be considered not to be in compliance with the relevant Thai laws and regulations. In such circumstances, there may be an adverse effect on the business, financial condition or results of operations of Alush Thailand and Global Property.

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### **The Aja-Art Rich Arrangements may not be as effective in providing control as direct ownership**

The Group controls the 51% equity interest in Global Property through the Aja-Art Rich Arrangements, details of which are set out in the paragraph headed "Thai Arrangements" under the section headed "History and development" in this document. As advised by the Company's Thai legal advisers, the Aja-Art Rich Arrangements are lawful, valid and legally effected, binding and enforceable under the Thai laws. Accordingly, if there is any dispute between the parties, such dispute may be resolved in accordance with the Thai legal procedures. As advised by the Company's Thai legal advisers, if Mr. Aja will be in breach of any contract, undertaking or proxy under the Aja-Art Rich Arrangements, the Group may have to seek and enforce legal remedies under the Thai laws, including seeking specific performance or injunctive relief, and claiming damages. There is no assurance that such remedies will be effective under Thai laws and even if the Group is able to obtain a judgment in its favour, it might not be practicable for the Group to enforce the judgment in light of the financial means of Mr. Aja, which could affect the Group's business. Further, in the event of the imposition of statutory liens or bankruptcy against Mr. Aja, unrelated third-parties may claim rights to some or all of the shares in Global Property registered under Mr. Aja's name. It is not clear whether this would hinder the Group's ability to claim priority right over any of these third party creditors' rights.

As a result, uncertainties in the Thai legal system could limit the Group's ability to enforce the Aja-Art Rich Arrangements.

### **The Group's operations are working capital intensive, and failure to maintain sufficient working capital may have an adverse impact on its business**

The Group's operations are working capital intensive. The Group generally settles its purchases of dried cassava chips within the next two business days following delivery. Therefore, the Group requires sufficient working capital to fund its procurement of cassava chips. The Group funds its working capital requirements out of cashflow generated principally from operating activities and bank borrowings. If the Group fails to maintain sufficient working capital through its business activities, collection of trade receivables or maintenance of bank loans, it may not have sufficient working capital for its business operations and its financial position may be adversely affected.

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### Direct sales

The Group sells its products either through direct sales or sales from warehouses. In respect of direct sales, the Group will negotiate sales contracts with its customers and sourcing contracts with its suppliers respectively. Generally, the Group will conclude a sourcing contract with its supplier either before or after the signing of the sales contracts with its customers. Depending on the market conditions (for instance, when the Group foresees an increasing shortage in the supply side in the near future, the price of dried cassava chips is in the increasing trend and/or the market demand in the PRC is strong), the Group may enter into the sourcing contracts with its suppliers prior to the signing of the sales contracts with its customers. Prior approvals of Mr. Chu were sought for the entering of such contracts prior to the Listing.

In the event that the Group fails to procure any sales contracts after signing of a sourcing contract or due to unforeseen market conditions, the sale price by the Group may be lower than its cost and the Group's profitability may be adversely affected.

### Leasing of warehouses

All the warehouses of the Group are leased in Thailand. Particulars of the leased properties and the lease agreements are set out in the paragraph headed "Property interests" under the section headed "Business" and the property valuation report of the Group in Appendix III to this document. The Group faces inherent legal and commercial risks associated with these leasing arrangements. The Group's warehouses in Bangsai and one of the two warehouses in Sriracha are sub-leased from the independent third party lessors who, in turn, leased the relevant properties from the respective property owners. The Company's Thai legal advisers confirmed that the sub-leases of the warehouses in Bangsai and Sriracha are legal, valid and subsisting, binding and enforceable and complies with relevant Thai laws and regulations. The lessors under any of the leases may act in breach of their obligations under the relevant lease agreements, or decide not to renew the lease upon the expiry of their respective terms. The vicinity of the Group's warehouses in Bangsai and Sriracha to the port facilities have allowed the Group to shorten the lead time for cargo readiness. There is no guarantee that the Group can secure new lease agreement on commercially viable terms at comparable locations with the lessors or owners of other warehouses suitable for storage and transportation of cassava chips. Should these happen, the Group's business operation may be adversely affected. For the warehouse in Bangpakong, the Company's Thai legal advisers were unable to confirm the ownership of the lessor because the Company's Thai legal advisers have not been provided by the lessor with proper document of title of the land and the warehouse at Bangpakong. Under Thai laws as supported by Thailand Supreme Court judgments, lessor of a property needs not be owner of the property but needs to have the right to lease out the property, e.g. sub-lease. In the event that the lessor in fact does not have the right to lease out the warehouses in Bangpakong due to any reason or the lessor's right is terminated by any reasons, the lessee will not be subject to any penalty or claims since it legally entered into the relevant lease agreement with good faith. Given the fact that the Bangpakong's warehouse capacity represents approximately 4.3% of the present total maximum loadable capacity of the Group's warehouses in Bangsai (including other warehouses within the same location rented by the sub-lessor which the Group, pursuant



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to its lease agreements for its storage facilities in Bangsai, has the priority right to rent (subject to the first right to rent by the sub-lessor and its affected companies)), Sriracha and Bangpakong, the Directors consider that in the event that the Group has to relocate its warehouses in Bangpakong, it would not have any significant impact to the Group's operations. According to the Group's business plan, the Group intends to establish more warehouses in the future. Therefore, the importance of any small individual warehouse will be decreased. However, the Group may need to find replacement warehouse and its operation may be adversely affected.

### **Leasing of offices in the PRC**

As at the Latest Practicable Date, the Group had a total of four leased properties in the PRC which are located in Qingdao, Rizhao, Jinan and Lianyungang and the leased area of each of which ranges from about 25 to 115m<sup>2</sup>. Out of these leased properties, (i) the landlords of the property in Jinan did not provide the Group with the title certificates of the property concerned; (ii) the landlord of Qingdao (a connected person, particulars of which are set out in the paragraph headed "Details of Continuing Connected Transactions" under the section headed "Business" in the document), did not provide the valid land use right certificate; (iii) the actual use as staff quarter and office under the lease of Qingdao Office did not comply with the agreed use as staff quarter; and (iv) the office leased by the Group in Rizhao by the Group from a connected person is subject to a mortgage. If the mortgage is enforced, the mortgagee has the right to terminate the lease. In respect of these leases, the Company's PRC legal advisers are unable to confirm whether the party named as landlord in the lease for Jinan office has the legal right to execute the relevant lease and cannot confirm whether the leases are valid and enforceable or whether the rights of the Group are protected under the PRC law.

If there is any dispute as to the legal title of any such leased property and/or if the Group's right to occupy the property comes into question, or the relevant leases are considered void by the relevant PRC authorities, the relevant office may have to be vacated and relocated elsewhere. The Group may, as a result, incur additional expenses in relocation and the Group may not be able to identify another property that is comparable in size and location. In such cases, the Group's business operations may be adversely affected.

### **Transfer pricing risk in international trade**

The Group has adopted transfer pricing arrangements among its group companies located in Thailand, Hong Kong, Macau and the PRC to regulate intra-group trades. During the Track Record Period, the Group has been carrying out its trading of dried cassava chips through Alush Thailand, Artwell Tapioca, Artsun Macao and Rizhao Yushun. In this regard, the Group is subject to risks not faced by other companies with internal operations that do not create intra-group trades. As a result, the Group's tax position may be subject to review and possible challenge by the relevant authorities and any possible change or challenge in laws.

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In the event that the Group's tax position is subject to review and possible challenge by the tax authorities in the relevant jurisdictions or there is a change in the tax policy and relevant tax laws in Thailand, Hong Kong, Macau or the PRC, it may adversely affect the Group's financial position and results of operation. In preparing the Group's financial information, the Directors have reviewed and assessed the Group's transfer pricing risk for the fact that it is possible that the relevant tax authority may challenge the Group's transfer pricing position, and the Directors considered that the Group has grounds to defend against such possible challenge. However, there can be no assurance that the Group will continue to be found to be operating in compliance with relevant transfer pricing laws, or that such laws will not be modified, which, as a result, may require changes to the Group's transfer pricing practices or operating procedures. Any determination of income reallocations or modification of transfer pricing laws could result in an income tax assessment and other relevant charges on the portion of income deemed to be derived from the taxing jurisdiction that so reallocates the income or modifies its transfer pricing laws.

### **Net current liabilities position and net cash outflow from operating activities**

The Group has recorded net current liabilities and net cash outflow from operating activities during the Track Record Period. There is no guarantee that such financial situation will not recur in the future. If the Group records similar financial situation in the future, the Group's financial performance measurement/indicators may be adversely affected.

### **The Group's reputation and business operation may be affected by defective cassava chips**

According to the Regulations on Quality Liability for Industrial Products (工業產品質量責任條例) promulgated by the State Council of the PRC, "Quality liability for products" refers to the liability due to the failure to satisfy the requirement for the applications, safety and other properties of the products stipulated in related laws and regulations, quality standards and contracts, which leads to loss on the part of the customer. The quality of the dried cassava chips is subject to the inspection conducted by the PRC Customs, and the defective cassava chips will not be allowed to be imported. If the Group's dried cassava chips are found to be defective, the Group's reputation and business operation may be affected.

### **Loss of any of the Group's key personnel will adversely impact its business and growth prospects**

The future success of the Group depends upon the continued services of its senior management. Many of its key executives, including the executive Directors, Mr. Chu and Ms. Liu have been with the Group or working with the industry related to the Group's business for over 15 years. Their experiences have contributed to the success of the Group's business. If the Group loses the services of any of these key personnel and the Group is unable to find suitable replacement, it will lose its competitiveness in the market, which may adversely affect its operating results and future prospects.

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### **Historical dividends should not be used as an indication for the Group's future dividend policy**

The Group had declared and paid dividends of [nil], [HK\$22 million], [HK\$75 million] and [nil] for each of the three financial years ended 31 March 2008 and five months ended 31 August 2008 to its then Shareholders, representing [nil], [64.6]%, [73.6]% and [nil] of the profit attributable to the equity holders of the Company for the respective years or period. The dividend payments during the Track Record Period have been financed by the internal resources of the Group.

The declaration and payment of dividends and their amount will be subject to the decision of the Board. Whether the Company will declare dividends and the amount of which will depend on factors including its business operation, earnings, surplus, financial conditions, funding requirement, withholding tax and payments by subsidiaries of dividends to the Company. Historical dividend yield should not be used as a reference or basis for ascertaining the amount of dividends which may be payable in the future.

### **Incomplete assignment and registration of trademarks**

During the Track Record Period, the Group had been carrying out its principal business of procurement and sales of dried cassava chips in the PRC, Hong Kong, Thailand and Macau using "Artwell" as its title and brand name.

Pursuant to a transfer agreement dated 26 March 2008 entered into between Mr. Chu as assignor and Art Ocean as assignee, Mr. Chu assigned the ownership and interests of certain trademarks in the PRC to Art Ocean for a nominal consideration of RMB1.00 (equivalent to approximately HK\$1.14). Application for approval of such assignment has been submitted to the Trademark Office under the State Administration for Industry and Commerce of the PRC. As at the Latest Practicable Date, the relevant approval is still pending and the possible time for completion of the issue of the relevant approval is mid 2009.

In addition, as at the Latest Practicable Date, the Group has already applied these trademarks for registration in Hong Kong, Thailand and Macau. However, as at the Latest Practicable date, certain trademarks registration applications in Hong Kong and all the trademarks registration applications in Thailand are still pending for approval by the relevant government authorities.

As the approvals of such assignment and registration have not been obtained, there can be no assurance that such assignment and registration will be approved or in case of such trademarks had already been registered by other third parties and, consequently, the Group may not be able to acquire rights to such trademarks. As the title and brand names are important to the Group's continuous development of Hong Kong, Thailand and Macau markets, any significant infringement of the Group's brand names or trademarks could have an adverse effect on the Group's business. Please refer to the paragraph headed "Intellectual property rights" in the section headed "Business" of this document for further details.

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### **RISKS RELATING TO THE GROUP'S INDUSTRY**

#### **Supply of agricultural products are susceptible to weather conditions and natural disasters**

The dried cassava chips that the Group sells to its customers are mostly sourced from Thailand. Natural disasters, inclement weather conditions and other acts of God which are beyond the Group's control may adversely affect the growing of cassava and the starch content of cassava roots in Thailand or its surrounding regions and consequently affect the Group's procurement of dried cassava chips. The Group's business, operating results and financial condition may be adversely affected if natural disasters, contagious disease, bad weather conditions and other acts of God occur.

#### **The Group operates in a competitive industry**

The Group operates in a competitive industry. In the Directors' view, the PRC cassava chips industry is fragmented, comprising a handful of enterprises which in aggregate dominate a majority of the market share and numerous other players sharing the remaining market in the PRC. The Directors believe that the Group is competing with over 30 importers of cassava chips in the PRC. There is no assurance that the Group will be able to maintain a competitive edge over other market participants. Intensive competitive pressure could have an adverse impact on the demand and pricing of the Group's products, which may adversely affect its business prospects and financial results.

#### **Perishable nature of fresh cassava and harvest seasonality**

Cassava chips must be stored or transported under specific conditions in terms of ventilation, humidity and certain other room conditions. If the cassava chips are not stored or transported under suitable conditions, they be damaged by fermentation and decay. In addition, there is the risk of damage from fire or water during storage or transportation. Should the Group's inventory of dried cassava chips be damaged by infestation, decay, fire or water during storage or transportation, the Group's operations and profitability may be adversely affected.

The harvest period for cassava roots in Thailand is generally from November to March in each year. Cassava can be uprooted any time even if the roots are not fully-grown. Besides, the dried cassava chips produced from cassava roots can be stored and sold in non-harvest period. As such, the Group has to procure adequate inventories during harvest period to maintain a suitable level of inventories during low harvest period. This seasonality of supply may adversely affect the Group's financial performance if it cannot acquire adequate inventories in order to maintain sales performance in the low harvest season.

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### **Insufficient international commodity market for dried cassava chip futures**

While there is a cassava chip futures market at the Agricultural Futures Exchange of Thailand, the trading volume has been thin. Accordingly, the Group does not hedge against changes in commodity prices. The Group may experience price volatility caused by external conditions, commodity market fluctuations, currency fluctuations and changes in governmental agricultural programmes. Unexpected commodity price increases may result in increases in procurement costs, and the Group may not be able to increase its product prices to offset these increased costs without suffering reduced sales volume, revenue and operating income.

### **Potential risks of sea transportation of dried cassava chips from Thailand to the PRC**

The Group may incur significant losses or costs relating to the transportation of cassava chips by vessels via the seaports from Thailand to the PRC. These vessels and their shipments are subject to perils particular to maritime operations, including capsizing, grounding, collision and loss or damage from severe weather conditions or storms. Any such event may result in loss of cargoes, severe damage and injury to property and humans or in the Group being named as a defendant in lawsuits involving claims for large amounts of damages, which may in turn materially adversely affect its financial condition and results of operations. In addition, in view of the political and social instability in Thailand in the past few years, any occupation of these seaports by protestors in anti-government campaigns may materially adversely affect the Group's financial condition and results of operations.

### **Environmental standards established by other countries**

If there are new laws or regulations on environmental protection in any of the jurisdictions which the Group operates, the Group may become subject to these environmental protection laws or regulations and additional costs may have to be incurred in order to comply with the relevant new laws and regulations and the Group's business operation may be adversely affected.

### **Changes in relationship between the PRC and countries where the Group's major foreign trade partners are located**

Currently the Group's business operations are within the Southeast Asia and the Group's revenue was principally derived from sales to customers in the PRC. The Group has not encountered difficulties in its business operations with these Asian countries. If there are changes in relationship between the PRC and these countries, the Group's business operation may be adversely affected.

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### **Changes in government regulations, including quality standards, licensing requirements, government charges and taxes applicable to the cassava industry may adversely affect the industry players**

Under the current Thai laws and regulations, the Group is required to obtain and maintain the certificate showing the registration as exporter of standard commodity from the Office of the Commodity Standard and an export licence for each export transaction from the Foreign Trade Department in order to operate its business in Thailand. One pre-requisite qualification for obtaining the certificate showing the registration as exporter of standard commodity from the Office of Commodity Standard is membership in any association relating to cassava products. Alush Thailand and Global Property have already obtained the certificates from the Office of the Commodity Standard as an exporter of standard commodity, which includes cassava products, for the year ending 31 December 2009. In the event of any change in laws and regulations or change in any eligibility criteria for the certificate or licence or any licensing conditions that prohibit the Group or make it more restrictive or onerous for the Group in obtaining or maintaining the certificate or licence, its business, results of operations and future expansion plans will be adversely affected.

Under the current PRC laws, enterprises engaging in cassava trading activities, such as import and sale of cassava chips in the PRC, are required to obtain appropriate business licences and registration certificates with the relevant PRC authorities, including the PRC Customs. Enterprises operating in the PRC are also subject to national and municipal laws, government charges, taxes and other impositions in the PRC.

The Group has obtained all necessary licences, certificates, permits and approvals for the import sales of its existing products in the PRC. However, there is no assurance that the Group will be able to renew such licenses, certificates, approvals and permits upon their expiration. The eligibility criteria for such licenses, certificates, approvals and permits and the relevant national standards on product quality may change from time to time and may become more stringent. In addition, new requirements for licenses, certificates, approvals, permits and product quality standards may come into effect in the future. The introduction of any new and/or more stringent laws, regulations, licenses, certificates, approvals, permits and product quality requirements relevant to the Group's business and operations may significantly escalate its compliance and maintenance costs or may limit or prohibit the Group from expanding its business. Furthermore, any changes or introduction of additional government taxes and charges may substantially increase the Group's costs of operation. Any such event may have an adverse effect to the Group's business, financial results and future prospects.

### **Demand for ethanol fuel may be affected by the price of oil or petroleum-based fuels**

According to the 《可再生能源中長期發展規劃》 (The Mid and Long-term Development Plan for Renewable Energy) as announced by the NDRC in August 2007, since the production capacity of ethanol fuel projects using grain feedstock as raw material will not be increased in the PRC, the Directors believe that the recent emphasis on the use of non-grain feedstock such as cassava for the production of ethanol fuel will lead to increase in the demand for imported dried cassava chips in the PRC.

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As ethanol fuel can be used in pure form or blended with petrol (gasoline) as automotive fuel and used as a substitute for petrol, the demand for using ethanol fuel as a substitute for petroleum-based fuels may not grow as expected if the price of oil or petroleum-based fuels is lower than that of ethanol fuel. In such circumstances, the demand for imported dried cassava chips in the PRC may not grow as expected and the Group's results of operation may be adversely affected.

In addition, from [June] 2008 to [December] 2008, prices of crude oil and denatured fuel ethanol saw a general trend of decline. If their prices continue to fall, the Group's business, financial condition and results of operation could be adversely affected.

### **Demand for ethanol fuel in some provinces in the PRC may not grow as expected**

The future growth of the ethanol fuel industry in the PRC depends on a number of factors, such as the PRC governmental policies, the number of areas where the sale of ethanol fuel is permitted and encouraged by the NDRC, the price of and demand for petroleum-based fuel, the emergence of other alternative fuels or forms of renewable energy and improvements to processing technologies for ethanol fuel. Demand for ethanol fuel in the PRC may not increase as the Group expects. Should any unforeseen factors emerge to undermine the development of the ethanol fuel industry in the PRC, the Group's ethanol fuel-producing customers' business could be adversely affected and consequently the Group's business, financial condition and results of operations could also be adversely affected.

## **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

### **Economic, social and political considerations**

The Group conducts its marketing activities principally in the PRC and its products are sold mainly to the PRC customers. As such, its operations, financial results and future prospects are subject to the economic, social and political developments of the PRC. The PRC economy differs from the economies of most developed countries in many respects, such as structure, level of government involvement, control of foreign exchange and allocation of resources. The PRC economy is generally a planned economy, in which periodic economic plans and measures are promulgated and implemented by the State. The PRC has been reforming its economic and political systems towards a more market-oriented economy in the past two decades, and many of the reforms are unprecedented and are expected to be refined and improved. The PRC government plays a significant role in the PRC economic growth. In view of concerns over the PRC's economic and fixed investment growth, bank credit and inflationary pressure, the PRC government has taken measures, including direction and/or restrictions on bank loans to certain sectors and change in interest rates, with the aim of managing the PRC's economic growth. Such measures, and any additional measures which may be further taken by the State, may have a significant negative impact on the PRC economy which in turn will adversely affect the Group's business, results of operations and future prospects.

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There is no assurance that the State will continue to pursue economic reforms, or that such reforms will be conducive to the benefit of the Group. Furthermore, changes in the political, economic and social conditions, laws, regulations and policies of the State may have a material adverse effect on the Group's business, financial results and future prospects.

### **The PRC legal system**

The Group operates and conducts part of its business in the PRC and therefore are subject to PRC laws and regulations. The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. Since 1979, the State has promulgated laws and regulations relating to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. Notwithstanding that, prospective investors should be aware that since the PRC legal system is still in a development stage and there is only limited volume of published cases (which are non-binding in nature), the interpretation and enforcement of the PRC laws and regulations involve a degree of uncertainty and may be inconsistent from time to time.

### **Currency conversions and fluctuations**

Although the majority of the Group's revenue and substantially all of the Group's cost of sales are denominated in Baht and US dollars, part of the payments of Rizhao Yushun is denominated in RMB.

With effect from July 2005, RMB is pegged against a basket of currencies determined by the People's Bank of China to improve the flexibility of the new foreign exchange system. The exchange rate of RMB against US dollar has appreciated since the PRC government shifted its pegged target from US dollar to a basket of currencies in July 2005. The RMB exchange rate may become volatile and the RMB may be revalued further against the US dollar or other currencies, or the RMB may be permitted to enter into a limited or full free float, which may result in an appreciation or depreciation in the value of the RMB against the US dollar or other currencies. As at the Latest Practicable Date, the Group has not taken any measures to hedge its RMB exposure. Appreciation in the value of RMB may adversely affect the administrative costs of the Group and, when translated or converted into Hong Kong dollars, the Group's earnings and net assets.

Further, RMB is not freely convertible to other currencies, except under certain circumstances. Pursuant to 《外匯管理條例》(the "Foreign Exchange Control Regulations") and 《結匯、售匯及付匯管理規定》(the "Regulations on the Foreign Exchange Settlement, Sale and Payments"), subject to provision to the banks which are authorised to engage in foreign exchange business of all the required documents under the relevant PRC laws, foreign investment enterprises are permitted to remit their profit or dividends in foreign currencies overseas or repatriate such profit or dividends after converting the same from RMB to foreign currencies through banks which are authorised to engage in foreign exchange business. Foreign investment enterprises are permitted to convert RMB to foreign currencies for items in current account (including, for example, dividend payments to foreign investors). Control over conversion of RMB to foreign currencies for items in capital account (including, for example, direct investment, loan and investment in securities) is more stringent.



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The Group's business operations undertaken by Rizhao Yushun are subject to the above laws and regulations. There is no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THAILAND**

#### **Economic, social and political considerations**

The Group is subject to political, legal and regulatory conditions in Thailand that differ in certain significant respects from those prevailing in other countries with more developed economies. The Group's business and operations are subject to the changing economic and political conditions prevailing from time to time in Thailand. The Thai government has implemented policies to manage the Thai economy and occasionally made significant policy changes. The Thai government's policies have included, among other things, wage and price controls and limits on imports. The Group's business, financial condition, results of operations and prospects may be adversely affected by changes in Thai government's policies and political stability in Thailand.

The Group conducts substantially all of its procurement and export operations in Thailand and the performance of the Thai economy has a significant impact on its business. From 1996 to 1998, Thailand's gross domestic product ("GDP") growth slowed down significantly as compared to historical levels and the country entered a recession. According to Thailand's National Economic and Social Development Board (the "NESDB"), Thailand's GDP subsequently grew by approximately 5.1% in 2006 and approximately 4.8% in 2007.

Factors that may adversely affect the Thai economy include:

- historical and potential future outbreaks of avian influenza, Severe Acute Respiratory Syndrome or other contagious diseases;
- exchange rate fluctuations;
- a prolonged period of inflation or increase in regional interest rates;
- changes in taxation;
- natural disasters, including tsunamis, earthquakes, fires, floods, drought and similar events;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the region;
- fluctuation in oil prices;
- political tension and public protests against the government;

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- other regulatory, political or economic developments in or affecting Thailand; and
- recent and threatened terrorist activities in Southeast Asia, including continued violence in the southern parts of Thailand.

The Group cannot be certain that the Thai economy will meet current projections or continue to improve in the future. Any downturn in the Thai economy may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Alush Thailand and Global Property are entities established under the laws of Thailand and are subject to the requirements set out in the Foreign Business Act, which restricts any Thailand company with the majority of its shares held by foreign shareholders from operating certain businesses in Thailand. Currently, the businesses operated by Alush Thailand and Global Property are not restricted under the Foreign Business Act. However, any subsequent change in the prevailing laws and regulations in Thailand that may prohibit the Group from operating its existing business in Thailand may have material adverse impact on the Group's overall operations.

### **The Group's business may be affected by political or social instability in Thailand**

For the past few years, there occurred certain political events which caused political tension and instability in Thailand. Its prime ministers had been ousted amidst anti-government campaigns in 2006 and 2008 respectively. Government offices and airports in Thailand had been occupied by anti-government protestors in the campaigns. Although the Group's main operation in Thailand involves warehousing and the use of ports, such facilities had not been occupied by anti-government protestors during the anti-government campaigns. In the event that the Group's warehousing facilities and major ports are occupied by protestors during anti-government campaigns in the future, the Group's business operations will be significantly affected.

Any future political instability in Thailand may have an adverse effect on the Group's business. There can be no assurance that the political environment in Thailand will be stable or that the current or any future government will adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for cassava exporters.

### **Currency conversion and foreign exchange control**

The value of the THB against the US dollars depreciated significantly during the period from July 1997 to 1998, and has fluctuated since 1998. It is uncertain that the THB will not be subject to future depreciation, appreciation or volatility, or that the Thai government's current exchange rate policy will not change in the future.

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The Group's raw materials and capital expenditures for future expansion programs will mainly be denominated in, and may be financed in, Thai Baht. Although the Group has managed to pass on the impact of currency fluctuations to its customers in the past, any future appreciation in the THB against the US dollars or RMB would increase the Group's procurement cost and the cost of its capital expenditures and there is no assurance that the Group will be able to continue to pass on such impact to its customers which could have an adverse effect on its business, financial condition, results of operations and prospects.

### **RISKS RELATING TO CONDUCTING BUSINESS IN CAMBODIA**

#### **Economic, social and political considerations**

The recent history of Cambodia has been characterised by political instability and civil war, with fighting between different factions until 1997. It is only in the past few years that Cambodia has regained some measure of political stability. However, any political instability may have an adverse effect on Cambodia's economy. Further, the Cambodian government may impose new measures or restrictions on exports of agricultural products. In such event, the Group's profits and operating results may be adversely affected.

The Group's operations in Cambodia are subject to laws, rules and regulations promulgated by the Cambodian government. The laws in Cambodia and its legal system are still in a developmental stage and are subject to changes. These factors mean that there is a lack of consistency and predictability in dispute resolution and in the interpretation and enforcement of laws and regulations. Accordingly, doing business in Cambodia entails a certain degree of risk and uncertainty. In the event that new laws are imposed, or existing laws, rules or regulations are interpreted or enforced in a way which is adverse to the Group's operations, its operations and financial performance may be adversely affected.

#### **Currency conversion and foreign exchange control**

Presently there are no exchange control restrictions in force in Cambodia which may prevent repatriation of profits from the Group's operations in Cambodia. However, in the event that such exchange control restrictions are imposed, the Group's ability to utilise revenue (if any) generated in Cambodia or distribute dividends (if any) to Shareholders may be constrained.