

BUSINESS

OVERVIEW

The Group was the largest exporter of dried cassava chips in Thailand and the largest supplier of dried cassava chips imported from Thailand to the PRC from 2003 to 2007 by export volume based on the annual reports of TTTA. The Group's products can be used for the production of ethanol fuel; however, the majority of the Company's products were not used for the production of new energy during the Track Record Period and the Group does not possess any proprietary technology in new energy development. The Group sources dried cassava chips from Southeast Asia principally in Thailand, stores dried cassava chips in the leased warehouse facilities in Thailand, organises shipping and delivery logistics and supplies its products mainly under the "Artwell" brand to its customers in the PRC. Based on the information from the FAO, the PRC was the largest dried cassava importing country in the world and Thailand was the largest dried cassava exporting country in the world with a market share of over 70% and supplied over 80% of the PRC's total imports of dried cassava in 2005. Based on the information from the TTTA annual reports, Thailand's exports of cassava chips to China in 2006 were approximately 3.96 million tonnes, which increased by approximately 43% from approximately 2.77 million tonnes in 2005. However, the export of cassava chips and pellets to China reduced to 3.22 million tonnes in 2007, representing a decrease of approximately 19% as compared with that in the previous year. Based on the information from the TTTA Newsletters between January and December 2008, Thailand's exports of cassava chips to China for this period were approximately 1.05 million tonnes.

Dried cassava chips are made from fresh cassava roots that have been chopped into small pieces and sun-dried for two to three days and may be used for the production of ethanol fuel, consumable ethanol, animal feed and other chemical products. The Group sources its fresh cassava roots from a network of over [30] suppliers and dried cassava chips from over [200] growers, processors and cassava traders. Currently, major cassava plantation in Thailand can be found in the north-eastern, northern and central (including the eastern) regions with many cassava growers spreading across the regions. Cassava plantation has a recorded history of over 45 years and is one of the major exported agricultural products in Thailand. The cassava supply network in Thailand involves not only cassava growers but also processors and cassava traders. The Group has established its foothold in its cassava procurement business in Thailand since 2001 and has maintained good business relationships with its major suppliers. The Group implements a "365-day open door policy" for purchases of cassava chips with payment within the next two business days as long as the product quality fulfills the Group's requirements. This is seen by the Directors as a major barrier for new entrants, as making such a commitment not only requires adequate working capital but also the necessary infrastructure, such as the warehousing and port-loading facilities and an established sales network.

The Group also sources fresh cassava roots from growers. Processing and drying of fresh cassava roots into dried cassava chips are carried out by a processor, on an exclusive basis, engaged by the Group in a drying yard in Khlong Lan, Thailand, having a site area of approximately 79,816m², pursuant to a management contract between Global Property and a Thai national, an Independent Third Party (the "Processor"). The contract is for a term of 30 years commencing from 16 January 2007. The Processor has been granted a right to occupy and use the land of the drying yard by the relevant governmental authorities

BUSINESS

perpetually commencing from 1 April 2008, provided that if the Processor is requested by Ministry of Agriculture in Thailand, he needs to sign a lease agreement of the land for a period of 30 years at a nominal fee. As advised by the Company's Thai legal advisers, no such request has been received from the Ministry of Agriculture as at the [Latest Practicable Date]. The Group has granted an interest-free loan of THB5.6 million (equivalent to approximately HK\$1.3 million) to the Processor which was recorded as a prepayment of the Group as of 31 March 2008, and a processing fee of THB186,666 (equivalent to approximately HK\$41,800) is payable by the Group each year, which will be set off against the outstanding balance of the loan owed by the Processor to the Group. Such prepayment was amortized to approximately THB5.5 million (equivalent to approximately HK\$1.2 million) as at 31 August 2008. During the term of the loan, the Processor is prohibited from disposing its interests in the land of the drying yard without the prior written consent of Global Property. In addition, the Group has also been granted an option to purchase the land of the drying yard from the Processor exercisable by the Group when and if a proper title deed of the land of the drying yard can be issued and Thai law is relaxed to permit Global Property to own the land of the drying yard at a price equivalent to the then outstanding balance of the loan at the time the option is exercised. As advised by the Company's Thai legal advisers, the provision of loan of THB5.6 million (equivalent to approximately HK\$1.3 million) in relation to the drying yard, the agreement of which is governed by the laws of Thailand, is legal, valid and enforceable under the Thai laws and the Group is not subject to any penalties as a result of the provision of such loan. Subsequent to the acquisition of Global Property by the Group in November 2007, the fresh cassava roots sourced by the Group amounted to approximately [533.1] tonnes for the financial year ended 31 March 2008 and [nil] tonne for the five months ended 31 August 2008 since it was during the non-harvast season.

The Group sells its products either through direct sales or sales from warehouses. In respect of direct sales, the Group will negotiate a sales contract with its customers and a sourcing contract with its suppliers respectively and will conclude the sourcing contract with its suppliers either before or after the signing of the sales contract with its customers. Depending on the market conditions, such as when the Group foresees an increasing shortage in the supply side in the near future, the price of the cassava chips is in the increasing trend and/or the market demand in the PRC is strong, the Group may, with Mr. Chu's approval, enter into the sourcing contract with its suppliers prior to the signing of the sales contract so as to secure sufficient supply to meet the market demand. The products will then be shipped to the designated port of delivery without being stored in the Group's warehouses. During the Track Record Period, the Group did not encounter any serious difficulties in selling the dried cassava chips with profit after signing the sourcing contract for its direct sales. In respect of sales from its warehouses, the Group's procured cassava chips will first be stored in the Group's warehouses in Thailand before the Group arranges for shipment to different customers. For each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, direct sales accounted for about 28.4%, 17.7%, 25.1% and [42.6]% of the total revenue of the Group in the respective years or period while sales from warehouse accounted for about 71.6%, 82.3%, 74.9% and [57.4]% of the total revenue of the Group in the respective years or period.

BUSINESS

Logistics arrangement is crucial to the supply chain of the Group. The Group has maintained business relationships with over [80] dry bulk vessel operators with capacities ranging from approximately 5,000 tonnes to 50,000 tonnes. The dry bulk vessel operators usually enter into voyage charters with the Group. Given the Group's established sales network and the market demand in the PRC, the Group has a flexible shipping arrangement in terms of volume shipped. The Group is able to match its orders on hand with the individual capacity of the dry bulk vessels. The Group's storage facilities in Bangsai, Sriracha and Bangpakong in Thailand are conveniently located in the vicinity of the port facilities where transport of dried cassava chips can be easily handled. The Group's warehouse facilities in Bangsai has a gross floor area of approximately 5,217m² and can store up to about 18,000 tonnes of dried cassava chips. It is located near the Chao Phaya river where lighters are commonly used for transporting large quantities of cassava chips directly from the warehouse to where the dry bulk vessels are berthed. Under the lease of its warehouse in Bangsai, the Group also has the priority right to rent other warehouses within the same location rented by the sub-lessor (subject to the first right to rent by the sub-lessor and its affiliated companies), which altogether has an additional gross floor area of approximately 16,940m² and can store up to about [67,000] tonnes of dried cassava chips. The Group has also leased warehouse facilities in Sriracha. They, in aggregate, have gross floor area of approximately 10,300m² and can store up to about 80,000 tonnes of cassava chips and is equipped with a conveyor belt which may link directly between the warehouses and the dry bulk vessel once a vessel is docked at the end of the 3 kilometre long conveyor belt, which is, to the best of the knowledge of the Directors, the only one in Thailand allowing dried cassava chips to be conveyed from a warehouse to an ocean vessel directly. This loading method is regarded by the Directors as time-efficient and cost-effective for loading dried cassava chips onto dry bulk vessels. The Group also leases another warehouse facilities in Bangpakong, Thailand, which allows the Group to store up to about [7,500] tonnes of dried cassava chips with a gross floor area of approximately [2,640]m². Bangpakong is located in the north of Sriracha and is near the Bangpakong River. The vicinity of its warehouses to the port facilities allows the Group to shorten the lead time for cargo readiness of its products. For example, it would take about three days for the Group to deliver up to about 40,000 tonnes of dried cassava chips from its various warehouses to a dry bulk vessel berthed at the port near Sriracha and load the lighters with dried cassava chips from all the Group's warehouses where the lighters would transport the goods to the ports near Sriracha and load the goods onto the dry bulk vessel. This logistical flexibility allows the Group to negotiate favourable shipping rates with dry bulk vessel operators as it reduces the number of days at dock.

Given that the Group was the largest exporter of dried cassava chips in Thailand and the largest supplier of dried cassava chips imported from Thailand to the PRC from 2003 to 2007 based on the annual reports of TTTA, the Group has leverage in setting the pricing of dried cassava chips that it sources in the Thai market. The Group has established an internal procurement pricing policy to determine the pricing of its cassava purchases. When formulating its offer price, the Group will take into account, among other factors, (a) the then prevailing market prices; (b) general market analysis of the demand of cassava in the PRC; (c) growing area and yield of cassava in Thailand; (d) cassava harvesting conditions; (e) currency conversion rate between the THB and the US dollars; and (f) its inventory level.

BUSINESS

Based on information from the TTTA's annual reports from 2003 to 2007, Alush Thailand's and other top five exporters' market shares by export volume of dried cassava chips are as follows:

Exporters (Shipping volume in '000 tonnes)	2003		2004		2005		2006		2007	
Alush Thailand (Note)	612	31%	480	19%	494	18%	676	17%	562	18%
Top 5 exporters (other than Alush Thailand)	781	40%	1,175	46%	1,284	46%	1,918	48%	1,304	42%
Others	<u>581</u>	29%	<u>915</u>	35%	<u>988</u>	36%	<u>1,373</u>	35%	<u>1,264</u>	40%
Total	<u>1,974</u>	100%	<u>2,570</u>	100%	<u>2,766</u>	100%	<u>3,967</u>	100%	<u>3,130</u>	100%

Note: Alush Thailand ranked number one in shipping volume from 2003 to 2007.

Some of the Group's customers have had business relationships with the Group for over [five] years. The Group sells its quality products mainly under the "Artwell" brand with timely delivery to its customers. The "Artwell" brand is well-known among the Group's PRC customers. During the Track Record Period, the Group's customers included trading companies and manufacturers of consumable ethanol, ethanol fuel and chemical products.

The Group has five offices and liaison centres in various cities in the PRC, namely Rizhao, Qingdao, Jinan, Lianyungang and Shenzhen. In order to serve its customers in the eastern and north-eastern China, the Group ships its cassava chips from Thailand to ports in China which are equipped with the unloading of bulk goods, such as cassava chips, including Rizhao, Lianyungang and Lanshan.

The gross profit margin of the Group's sales from warehouse remained relatively stable for the years 2006 and 2007 at approximately [26.0]% and [26.2]% respectively. The approximately [1.6] percentage point increase in the Group's gross profit margin in respect of sales from warehouses from approximately [26.2]% in the year 2007 to approximately [27.8]% in 2008 was mainly due to the upward price trend of dried cassava chips in the market and the strategy adopted by the Group, being engaged in a long position in holding dried cassava chips at warehouses in a rising price environment. The gross profit margin of the Group's sales from warehouse remained relatively stable for the five months ended 31 August 2007 and 2008 at approximately [26.3]% and [27.7]%. The approximately [1.4] percentage point increase in the Group's gross profit margin in respect of sales from warehouse was mainly due to the increase in selling price of dried cassava chips.

BUSINESS

The gross profit margin of the Group's direct sales remained relatively stable for the years 2006 and 2007 at approximately [14.0]% and [15.1]% respectively. The gross profit margin of the Group's direct sales for the year 2008 increased by [7.0] percentage points to [22.1]% from [15.1]% for the year 2007. This was mainly because the Group has selectively focused on direct sales transactions with higher margin in order to enhance profit in the circumstances of upward price trend of dried cassava chips in the market. The gross profit margin of the Group's direct sales for the five months ended 31 August 2008 decreased by approximately 8.3 percentage points to approximately [14.6]% from approximately [22.9]% for the five months ended 31 August 2007. The supply of dried cassava chips from Thailand during the five months ended 31 August 2008 was squeezed by the surge in demand of cassava hard pellets in Europe during the harvest season. The traders made upward adjustments to their price level of dried cassava chips accordingly and the Group's cost of sales for direct sales were increased, which resulted in a decrease in gross profit margin back to level of approximately 15%.

The Group's net profit has grown significantly during the three financial years ended 31 March 2008. Its revenue for the three financial years ended 31 March 2008 grew at CAGR of approximately [10.4]% from HK\$[740.9] million for the financial year ended 31 March 2006 to HK\$[903.6] million for the financial year ended 31 March 2008. The net profit for the three financial years ended 31 March 2008 were HK\$[15.3] million, HK\$[34.1] million and HK\$[101.9] million respectively, representing a CAGR of approximately [158.1]%. Revenue of the Group increased by approximately HK\$[60.8] million, or approximately [22.2]%, from approximately HK\$[273.7] million for the five months ended 31 August 2007 to approximately HK\$[334.5] million for the five months ended 31 August 2008. Profit for the period of the Group decreased by approximately HK\$[22.9] million, from approximately HK\$[27.7] million in the five months ended 31 August 2007 to approximately HK\$[4.8] million in the five months ended 31 August 2008. The decline was mainly attributable to (i) losses of non-cassava nature for the five months ended 31 August 2008, including in particular the fair value loss on investment properties in Hong Kong of approximately HK\$8.7 million, deficit on revaluation of property, plant and equipment of approximately HK\$[0.5] million for the five months ended 31 August 2008 due to general decline in the property market in Hong Kong; (ii) gain on disposal of available-for-sale investment of approximately HK\$[16.2] million for the five months ended 31 August 2007; and (iii) the tax effect of items (i) and (ii) above. For each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, the Group sold approximately [759,000] tonnes, [812,000] tonnes, [667,000] tonnes and [198,000] tonnes of dried cassava chips, respectively.

COMPETITIVE STRENGTHS

The Directors believe the Group's success can be attributed to the following key strengths:

Extensive procurement network and stable supply

The Group sources its products from an extensive network of over [200] growers, processors and cassava traders mainly in Thailand. The Group has business relationships of over [five] years with its key suppliers. The Group has a long-term supply contract for

BUSINESS

a term of four years commencing from 1 April 2007 with its largest supplier, pursuant to which the largest supplier agreed to supply a minimum quantity of 100,000 tonnes of cassava for each of the four years ending 31 March 2011, respectively. The Group has also entered into an exclusive long-term supply contract for a term of over five years with a supplier in Laos, pursuant to which the supplier agreed to supply to the Group, and the Group agreed to purchase from the supplier a minimum quantity of 100,000, 120,000, 150,000, 200,000 and 250,000 tonnes of cassava roots for each of the five years ending 31 December 2013. Such an extensive procurement network and the above mentioned long-term supply contracts ensure the Group's access to a steady supply of cassava chips. [The Group has not commenced purchases from this cassava supplier in Laos as at the Latest Practicable Date.]

Strategic location of storage facilities in Thailand

The Group's storage facilities in Bangsai, Sriracha and Bangpakong are conveniently located in the vicinity of the port facilities where export of dried cassava chips can be easily handled. Details of the leases entered into by the Group in respect of these facilities are more particularly referred to in the paragraph headed "Transportation and logistics" in this section. The Group has occupied these storage facilities in Bangsai, Sriracha and Bangpakong since 2001, 2003 and 2007 respectively. Further, the Group has access to the ports, loading facilities and equipments, including the conveyor belt in Sriracha which facilitates the loading of large quantity of about 7,600 tonnes cassava chips per day directly onto the dry bulk vessels. The vicinity of its warehouses to the port facilities allows the Group to shorten the lead time for cargo readiness of its products. For example, it would take about three days for the Group to deliver up to about 40,000 tonnes of dried cassava chips from its various warehouses to a dry bulk vessel berthed at the port near Sriracha and to load the lighters with dried cassava chips from all the Group's warehouses where the lighters would transport the goods to the ports and load the goods onto the dry bulk vessel. This reduces the number of days at dock of the dry bulk vessels, and provides the Group with flexibility to negotiate for a preferential shipping rate.

Established customer base

The Group has established business relationships with its top five largest customers for the three years and five months ended 31 August 2008 from two to seven years. The Group has established business relationship with Henan Tianguan, an Independent Third Party and one of the five largest customers of the Group in the financial year ended 31 March 2008 and was the seventh largest customer of the Group for the five months ended 31 August 2008. A subsidiary of Henan Tianguan is one of the [four] authorised ethanol fuel producers in the PRC. The Group also has established a distribution network in the PRC with a customer base of over 40 in the PRC, including trading companies, manufacturers of consumable ethanol, ethanol fuel and chemical products. The Group believes that its ability to maintain a diversified customer base is mainly attributable to the quality of its products, its market position, and its professional management.

Effective supply chain

The Group has an experienced logistics management team and the majority of the team members have over 10 years of relevant experience. The Group has built up business

BUSINESS

relationships with over [80] dry bulk vessel operators. Given that the Group was the largest exporter of dried cassava chips in Thailand from 2003 to 2007 based on the annual reports of the TTTA, its network of vessels operators provided the Group with the flexibility to select vessels having capacities ranging from [5,000] tonnes to [50,000] tonnes to meet the delivery requirements of its clients.

Progression into upstream supply chain

The Group started to source fresh cassava roots in January 2008, subsequent to its gain of effective control over Global Property through the GP Arrangements in November 2007. These fresh cassava roots are supplied to a processor engaged by the Group for a term of 30 years commencing from 16 January 2007 for processing and drying. Processed dried cassava chips are stored in the Group's warehouses. The Group believes its progression into upstream supply chain that combines cassava chips and roots sourcing, processing and delivery logistics in one single operational platform will enhance its operating efficiencies.

Quality control and well-recognised brand name

The Group's quality control of its product has earned recognition among its customers. The "Artwell" brand dried cassava chips sold by the Group generally contains a starch content of 67% or above, which is higher than the Standard of Cassava Product of [65%] issued by the Ministry of Commerce of Thailand.

Apart from its in-house quality control laboratory for monitoring the quality of its cassava chips, the Group and its customers also hire independent surveyors to examine the quality of dried cassava chips and issue certificate of quality. The Group believes that its quality control measures would enable the Group to expand its sales network further.

Experienced and dedicated management team

The long-term commitment of the Group's senior management and operating team to its business has helped them obtain in-depth knowledge of the relevant industries and enabled them to respond to various challenges in the ever-changing market. The Group's senior management team built up its corporate culture to emphasise high quality and positioned themselves as a provider of high quality dried cassava chips.

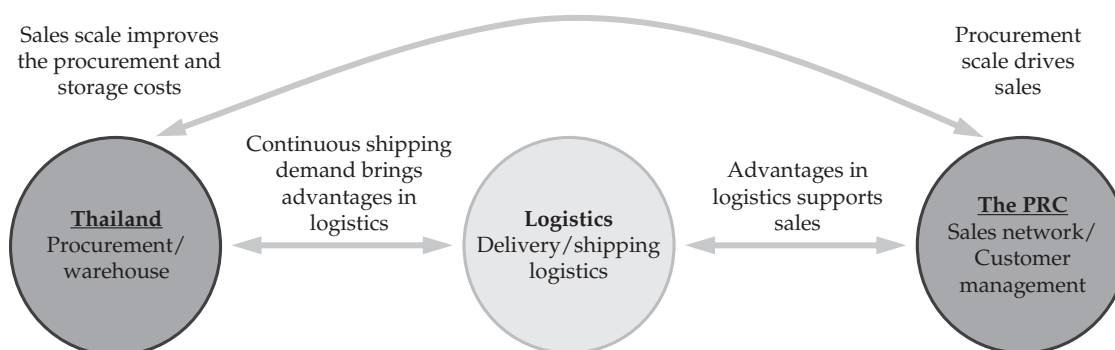
Bargaining leverage

The Group was the largest exporter of dried cassava chips in Thailand and the largest supplier of dried cassava chips imported from Thailand to the PRC from 2003 to 2007 based on the annual reports of TTTA. The Group's dominant position in the Thai market gives it leverage in setting the pricing of dried cassava chips that it sources in Thailand.

BUSINESS

Interconnection of the core strengths

The following chart briefly illustrates the interconnection between the Group's three core strengths:



The Group's extensive procurement network is supported by its shipping and delivery logistics capability and an established customer base. On the other hand, since the Group has extensive procurement network and an established sales market, it has to enhance its shipping and delivery logistics capability in order to support both upstream and downstream operations. Finally, the Group's sales market must be supported by its procurement network and the necessary shipping and logistics arrangement. All in all, the Group's three core strengths above are interconnected and reinforce each other.

PRODUCTS

Introduction

Cassava is a tropical crop requiring warm humid climate. It is known for its drought tolerance and hence being grown as rain fed crop successfully. Cassava plant is a perennial plant that grows under cultivation to a height of about 1–4 metres. The large, dark-greenish, palmate leaves ordinarily have 5–9 lobes borne on a long slender petiole. The roots or tubers radiate from the stem just below the surface of the ground. Cassava root is composed of approximately 14–40% starch. Cassava is a multi-purpose plant and nearly all parts of cassava from roots to leaves can be used. Cassava is one of the major exported agricultural products in Thailand. In the PRC, cassava is considered as a non-grain bio-fuel raw material by the NDRC.

Dried cassava chips are made from cassava root that has been chopped into small pieces and sun-dried for 2 to 3 days. Based on the Group's experience, approximately 2.1 kg of fresh cassava roots can be processed into 1 kg of dried cassava chips. Pursuant to the announcement made by the Ministry of Commerce of Thailand, the commodity standard for cassava chips must have a minimum starch content of 65%, fibre content of not more than 5%, moisture content of not more than 14% and sand or soil content of not more than 3%, by weight.

Major cassava plantation in Thailand can be found mainly in the north-eastern, northern, and central (including the eastern) regions. Generally, farmers will sell fresh cassava roots to cassava traders and processors for processing in Thailand.

BUSINESS

Usage of Cassava Chips

Cassava chips can be used for the production of the following products:

(i) *Ethanol fuel*

Ethanol fuel is a renewable form of energy. Ethanol may be produced by fermenting and distilling starchy crops such as cassava that have been converted into sugars. It can be used in pure form or blended with petrol (gasoline) as automotive fuel and used as a substitute for petrol. Since 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, the production capacity of ethanol fuel projects with 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.

(ii) *Consumable ethanol*

Consumable ethanol is colourless, volatile liquid with mild odour which can be obtained by the fermentation of sugars derived from cassava. Consumable ethanol is commonly used as a raw material in the food and beverage industry.

(iii) *Chemical products*

Chemical products such as citric acid can also be produced from cassava. Citric acid is an organic acid and can be produced from cassava chips. It is a natural preservative and is also used to enhance acidity or sour taste to food and soft drinks.

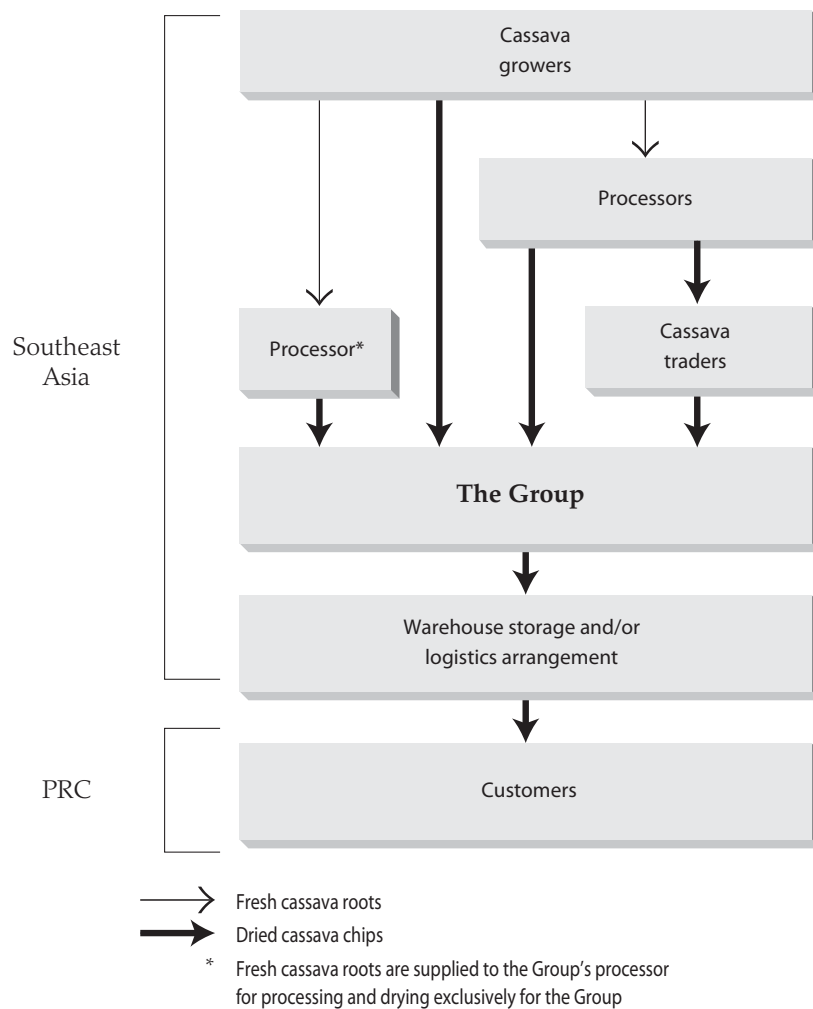
(iv) *Animal feed*

Dried cassava chips can be used for the production of animal feed. Such animal feed has been used in pigs and dairy cattle diets both at farms and feed mills.

BUSINESS

Integrated supply chain business model

The following chart briefly illustrates the Group's supply chain business model:

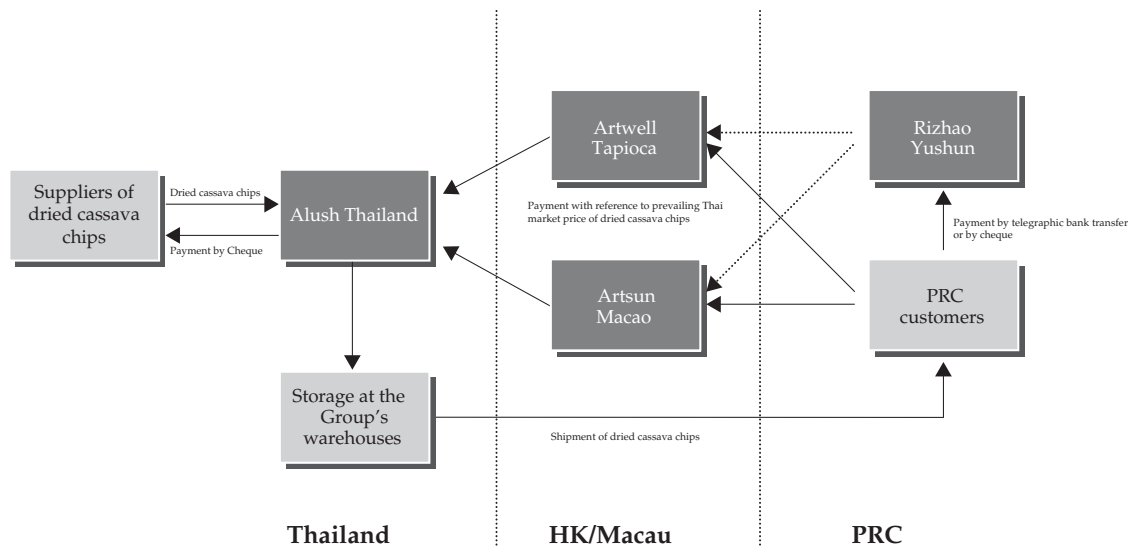


The Group operates a vertically integrated business model and procures both fresh cassava roots and dried cassava chips from cassava growers, processors and cassava traders principally from Thailand.

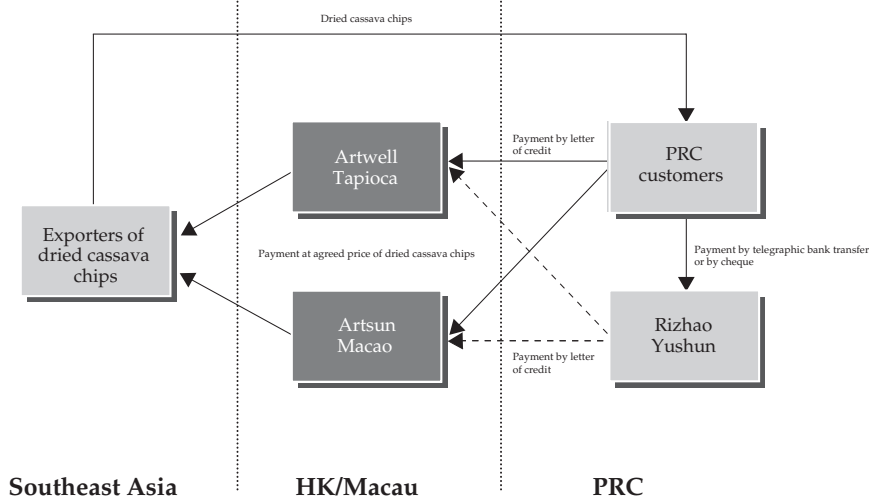
BUSINESS

The following charts elaborate the transaction flow of the Group's two categories of sales:

Sales from warehouse



Direct sales



For the Group's sales from warehouse, Alush Thailand procures dried cassava chips from various suppliers in Thailand. Upon delivery, the procured dried cassava chips will be stored at the Group's warehouses in Thailand. The purchases are usually settled by cheque in THB. Either Artwell Tapioca or Artsun Macao will generally enter into (i) purchase contracts with Alush Thailand at the prices with reference to the prevailing Thai market FOB prices which the Directors consider as fair market value consideration as required under the Revenue Code of Thailand, and (ii) sales contract with the corresponding PRC customers or their respective import agents at the agreed price based on the market condition which is settled in US\$. Alush Thailand is responsible for supplying dried cassava chips and the logistic team of the Group in Hong Kong will coordinate the shipping arrangement. The PRC customers generally issue letters of credit directly to either Artwell Tapioca or Artsun Macao.

BUSINESS

For the Group's direct sales, either Artwell Tapioca or Artsun Macao will enter into purchase contracts with cassava exporters and the purchases will generally be settled through telegraphic transfers or letters of credit at sight at the agreed prices in US\$. The Group's logistics team in Hong Kong will coordinate the shipping arrangement. Similar to sales from warehouse, the PRC customers will generally issue letters of credit to Artwell Tapioca or Artsun Macao for settlement. The main differences distinguishing the Group's direct sales from sales from warehouse are that direct sales are bulk purchases from other exporters and the dried cassava chips will not be stored at the Group's warehouses in Thailand before shipment. All dried cassava chips are shipped to the PRC for the Group's sales from warehouse and direct sales.

The Group's PRC customers may also make their purchases from Rizhao Yushun or appoint Rizhao Yushun as their import agents, in case the PRC customers do not have the import licence or do not have letter of credit facilities. In these cases, Rizhao Yushun will issue letter of credit to Artwell Tapioca or Artsun Macao in US\$, while the relevant PRC customers will settle the payment with Rizhao Yushun by telegraphic bank transfer or by [cheque] in RMB. Rizhao Yushun charges its PRC customers with reference to market prices.

The Directors are of the view that the above trading arrangements are normal international trading practice. The dried cassava chips are sold to a Group member by Alush Thailand at the prices with reference to the prevailing Thai market FOB prices before re-selling to the end customers of the Group, because these international trades involve procedures and negotiations outside Thailand and they are conducted in the ordinary and usual course of the Group's business and are on normal commercial terms.

The Group conducts on-site quality control at its warehouses to ensure that the quality of the dried cassava chips it sources meets the Group's requirements. The Group sells its products either through direct sales or sales from warehouse. In respect of direct sales, either before or after the receipt of a purchase order, the Group will enter into a sourcing contract with its suppliers for dried cassava chips and the products will be shipped to the designated port of delivery without being stored in the Group's warehouses. In respect of sales from its warehouses, the Group's procured dried cassava chips will first be stored at the Group's warehouses in Thailand. Either before or after confirming sales orders with its PRC customers, the Group will check for availability of shipping schedule before negotiating shipment terms with the dry bulk vessel operators. Dried cassava chips are delivered directly to the designated port in the PRC. For each of the three financial years ended 31 March 2008 and the five months ended 31 August 2008, direct sales accounted for about [28.4]%, [17.7]%, [25.1]% and [42.6]% of the total revenue of the Group in the respective years or period while sales from warehouse accounted for about [71.6]%, [82.3]%, [74.9]% and [57.4]% of the total revenue of the Group in the respective years or period. The Group believes that its progression into upstream supply chain by sourcing fresh cassava roots not only can effectively enlarge its procurement capacity and volume, but also can help expand its business operations. In addition, through vertical integration, the Group can also trace all of its final products to ensure better quality control and credibility.

BUSINESS

As advised by the Company's Thai legal advisers, under the Revenue Code of Thailand, transfer of asset or property by a company must be made with a fair market value consideration. Any transfer pricing lower than the fair market value can be accepted only if there is an appropriate reason. Therefore, when Alush Thailand exports its product to the other Group members, or third party, Alush Thailand is obliged to comply with this principle of law. If this law is violated, i.e. the transfer pricing charged by Alush Thailand is lower than fair market value basis, the Thai Revenue Department has a power to assess the appropriate amount of consideration to be income of Alush Thailand as its income and its declared income and tax will be adjusted. For the financial year ended 31 December 2006 of Alush Thailand, the Thai Revenue Department has already addressed the transfer pricing issue concerning Alush Thailand's operation in Thailand, and made necessary adjustments for additional tax and surcharge totalling approximately THB2.4 million (equivalent to approximately HK\$0.5 million) (representing approximately THB2.1 million (equivalent of approximately HK\$470,400) of additional tax and approximately THB0.3 million (equivalent to approximately HK\$67,200) of surcharge) based on the revised tax return submitted by Alush Thailand on a voluntarily basis for the financial year ended 31 December 2006. Such amounts were recorded in the combined financial statements of the Group for the financial year ended 31 March 2007. The Directors believe that such adjustments were made on a judgemental basis by the Thai Revenue Department. There was no other investigation nor enquiry on the Group's tax affairs by the Thai Revenue Department up to the [Latest Practicable Date]. The Directors are of the view that there was no non-compliance with any tax rules and regulations in respect of Alush Thailand. In addition, even though the Thai Revenue Department has conducted a tax review on Alush Thailand's taxation affairs in Thailand, the Group should not be considered to be not in compliance because section 20 of the Revenue Code of Thailand empowers an assessment official to adjust an amount of assessed tax or an amount calculated in the tax return.

In view of (i) the insignificance of the amount of additional tax charges; (ii) the expected length of management time to be involved; and (iii) the possible significant amount of professional costs to be incurred, the Group considered that the potential costs to be incurred outweighed the benefit of an appeal. Accordingly, Alush Thailand did not make any appeal. In accordance with section 19 of the Revenue Code of Thailand, the Revenue Department of Thailand retains the right of tax examination for the two years counting from the date of the filing of the tax return. Such examination time limit can be extended to five years, subject to approval of the Director-General of the Revenue Department, if there is evidence of evasion. As advised by the Company's Thai legal advisers, under normal circumstances, the Revenue Department of Thailand will not revisit the same issue, such as transfer pricing, for the second time if the issue has already been reviewed previously. As the Revenue Department of Thailand has already assessed the transfer pricing issue concerning Alush Thailand and necessary adjustments had been made accordingly and no further enquires on this issue has been raised up to the [Latest Practicable Date]. Therefore, the Directors consider that it is not likely for the Thai Revenue Department to demand further transfer pricing adjustments in respect of the same year. The tax provision made for the financial year ended 31 December 2007 has taken into account the basis of the Thai Revenue Department in respect of the transfer pricing of Alush Thailand for the financial year ended 31 December 2006. The Directors conclude that the current tax provision for each of the three financial years ended 31

BUSINESS

March 2008 and five months ended 31 August 2008 of the Group are adequate and not excessive. As advised by the Company's Thai Legal Advisers, Thailand, as a member of the World Trade Organisation, has adopted the General Agreement on Tariff and Tax, in which the arm's length pricing basis shall be used for importation value of goods. Such appears in the Customs regulations of Thailand. The Customs Department will regularly make its audit on companies doing import of goods on the valuation and other issues, e.g. tariff code. Therefore, apart from the Revenue Code, the Customs law also governs the issue of transfer pricing but relates on import and export pricing. There has been no review on Alush Thailand carried out by the Thai Customs Department during the Track Record Period.] There is no specified time bar for the Customs Department's review. However, the Customs Act requires the import-export document to be retained for the purpose of audit for the period of not less than 5 years. Therefore, in practice, the Customs official will not ask the exporter to deliver documents for their audit over five years. The Company's Thai legal advisers advised that Alush Thailand has been in compliance with the tax rules and regulations in Thailand. The Directors are of the view that the transactions between Alush Thailand and other Group members were conducted in the ordinary and usual course of the Group's business and on normal commercial terms during the Track Record Period. During the tax review in the financial year ended 31 December 2006 of Alush Thailand, the Thai Revenue Department has not indicated that Alush Thailand has committed any tax evasion or willful understatement of income or profits. The Directors do not foresee any circumstances where the Thai Revenue Department will consider the transfer pricing arrangement is for the purpose of tax evasion or willful understatement of income or profits, and thus, the Directors are of the view that the chance of any penalty associated with the transfer pricing arrangement being imposed on the Group, the Directors or the senior management is remote. According to the Revenue Code of Thailand, a penalty will be imposed to the tax payer if an assessment is raised by the Thai Revenue Department for any additional amount of tax due to lower income reported, or transfer pricing at lower value than market rate without valid reason. However, under the Revenue Code of Thailand, a penalty could not be imposed in the case of understated sales revenue reported by the taxpayer on a voluntarily basis by filing a revised tax return at any time before the issue of formal final assessment for understated sales revenue by the Thai Revenue Department. By thus doing, no penalty would be imposed on a taxpayer by the Thai Revenue Department. No penalty was imposed by the Thai Revenue Department in accordance with the Revenue Code of Thailand because Alush Thailand had submitted the revised tax return for the financial year ended 31 December 2006 on a voluntarily basis, advising the Thai Revenue Department on the amount of understated sales revenue based on its own internal review. Assuming all sales of Alush Thailand were made to ultimate customers without transacting through other Group companies, the Directors estimate that the hypothetical additional tax and surcharges for the three months ended 31 March 2007 and the financial year ended 31 March 2008 are approximately be HK\$1.2 million and HK\$23.2 million. Nevertheless, the Controlling Shareholders (i.e. Mr. Chu and AR management) will provide indemnity in favour of the Group for any losses, costs, expenses and/or damages in relation to any tax claim and other non-compliances of the Group during the Track Record Period, details of which is set out in the section "Other information" of Appendix V of this document.

BUSINESS

As advised by the Company's Hong Kong lawyers, the relevant laws and regulations governing the transfer pricing in Hong Kong is the Inland Revenue Ordinance (CAP. 112 of the Laws of Hong Kong). The financial information contained in the accountants' report in Appendix I has been audited by the Reporting Accountants which expresses an unqualified opinion on the financial information as a whole, including the tax provision for the Hong Kong jurisdiction. As part of the audit procedures, the Reporting Accountants have taken into consideration the relevant financial impact of the transfer pricing adjustments where appropriate. With reference to the unqualified opinion of the Reporting Accountants on the financial information as a whole and having considered the Directors' opinion that the current transfer pricing arrangements of the Group are normal international commercial practice on normal commercial terms and the commercial merits enjoyed by the Group through such arrangement, the Company's Hong Kong lawyers consider that the possibility of the transactions between Artwell Tapioca and Alush Thailand being considered as transactions and dispositions to be disregarded or transactions designed to avoid liability for tax under sections 61 and 61A of the Inland Revenue Ordinance is minimal and therefore did not violate the relevant laws and regulations in Hong Kong.

As confirmed by Macau lawyers, Artsun Macao has been duly registered under the Macau laws for tax purposes and it is exempt from the payment of any profit taxes according to article 12. sections 1(a) and (b) of Decree-Law no 58/99/M of 18 October 1999 – Offshore Regulations. In addition, the Company is not required to make any withholding or deduction for or on account of the declaration and payment of any dividend and/or other distributions (whether in cash or in kind) by it.

There is no filing requirement in respect of the transfer pricing return in Hong Kong. As advised by the Company's Thai legal advisers and the Macau legal advisers, there is no filing requirement in respect of the transfer pricing return in the respective jurisdictions. In addition, as advised by the Company's PRC legal advisers, according to the 《中華人民共和國稅收徵管法實施細則》 (The Detailed Rules for the Implementation of the Law of Administer the Levying and Collection of Taxes of PRC), the taxpayer does not have the responsibility to report to the tax authority whether a transfer pricing exists. However, the taxpayer shall provide the relevant information to the tax authority regarding all related parties transactions, and the tax authority will make a judgement to decide if there is a transfer pricing arrangement.

PURCHASES AND SUPPLIERS

Price determination

The Group has established an internal procurement pricing policy to determine, among other things, the pricing of its cassava purchases. When formulating its offer price, the Group would take into account (a) the then prevailing market prices; (b) general market analysis of the demand for dried cassava chips in the PRC; (c) growing area and yield of cassava in Thailand; (d) cassava harvesting conditions; (e) currency conversion rate between the THB and the US dollars; and (f) its inventory level. The Group's market position gives it leverage in setting the pricing of dried cassava chips sourced by it in Thailand.

BUSINESS

Currently, sales personnel of the Group regularly provides information on market situation, competitors' pricing and customers' demand and the Group's key management, including Mr. Chu, Ms. Liu, Mr. MK Chu and Mr. Chan Chi Wai, Benny, meets regularly and not less frequent than monthly, to review product pricing with reference to such information and to make appropriate revision when the market price have a material change to ensure timely response to market conditions.

In the financial year 2006, the sales of dried cassava chips from Alush Thailand to Artwell Tapioca in the case of sales from warehouse were made with reference to the prevailing FOB selling prices of other exporters in the case of direct sales. The Directors found out after the year end that as the Group had not revised the selling FOB prices between Alush Thailand and Artwell Tapioca on a periodical basis, the average selling price (approximately US\$108.4 (equivalent to approximately HK\$850) per tonne) from Alush Thailand to Artwell Tapioca in the case of sales from warehouse for the year 2006 is approximately 1% higher than the average selling price paid by Artwell Tapioca to other independent exporters (approximately US\$107.3 (equivalent to approximately HK\$840) per tonne) in the case of direct sales during that year. This has resulted in a higher than necessary export prices declared and therefore higher export levies paid by the Group and a higher taxable profit being retained in Thailand, which was subject to a comparatively higher tax rate of 30% (when compared with that of 17.5% for Artwell Tapioca in Hong Kong). This has therefore reduced the Group's competitiveness in the market.

In the financial year 2007, learning from the price setting experience in the financial year 2006, the Directors reviewed and, where appropriate, revised the selling FOB prices charged by Alush Thailand to Artwell Tapioca on [a not less frequent than monthly basis. As a result, the Group's internal control was enhanced. The management considered that there was no internal control weakness after such revision.] Also, because of the high volume of sales from warehouse going through Alush Thailand, Alush Thailand had been able to achieve a saving in warehouse and other handling costs. The savings had also been partially passed on to Artwell Tapioca through lowering the FOB selling prices in order to enhance the competitiveness of Artwell Tapioca. As a result, the average selling price (approximately US\$106.8 (equivalent to approximately HK\$830) per tonne) from Alush Thailand to Artwell Tapioca in the case of sales from warehouse for the financial year 2007 was approximately 3% lower than the prevailing FOB selling prices of other independent exporters (approximately US\$109.6 (equivalent to approximately HK\$850) per tonne) in the case of direct sales[, which the Directors consider as fair market value without material deviation].

At the start of the financial year 2008, the Directors had predicted the price of cassava chips to be rather volatile and on an increasing trend for the financial year 2008. Also, due to the continuous depreciation of HK\$ against THB, resulting in an increase in the warehouse and other operating costs of Alush Thailand and the expected increase in freight costs due to the increase in oil prices, the Directors increased the selling FOB prices from Alush Thailand to Artwell Tapioca and Artsun Macao during the year. The Directors further allowed a higher extent of increase during the year when the Group had decided to engage in more direct sales, resulting in a lower volume of sales from warehouses. This leads to less capital commitment and lower finance cost, and as such, resulting in more financial resources available to the Group, including Alush Thailand, and the above

BUSINESS

coupled with the fact that as an independent profit operation, a higher FOB price charged by Alush Thailand would allow Alush Thailand to maintain a higher competitiveness in the Thai procurement market. As a result, the average selling price (approximately US\$138.1 (equivalent to approximately HK\$1,100) per tonne) from Alush Thailand to Artwell Tapioca and/or Artsun Macao in the case of sales from warehouse for the financial year 2008 was approximately 8% higher than the prevailing FOB selling prices of other independent exporters (approximately US\$128.2 (equivalent to approximately HK\$1,000) per tonne) in the case of direct sales.

The pricing arrangement between the suppliers of dried cassava chips, Alush Thailand, Artwell Tapioca, Artsun Macao, Rizhao Yushun and PRC customers of the Group is based on prevailing market prices.

The Directors confirm that the transfer pricing arrangement is in full compliance with the relevant rules and regulations, including transfer pricing laws, in all the jurisdictions in which the Group operates.

Suppliers

The Group sources its fresh cassava roots and dried cassava chips principally from cassava growers, processors and traders in Thailand. The Group maintains business relationships with over 200 suppliers and has established business relationships of over five years with some of its top 10 suppliers. Other than the long-term supply contract made with each of its largest supplier in Thailand and a supplier in Laos respectively, the Group does not have any long-term supply contract for cassava purchases with the Group's suppliers. Pursuant to the long-term supply contract with the Group's largest supplier of cassava chips for a term of four years ending on 31 March 2011, the supplier agreed to exclusively supply and the Group agreed to purchase a minimum quantity of 100,000 tonnes of dried cassava chips for each of the four years ending 31 March 2011. The Group has also entered into an exclusive long-term supply contract for a term of over five years with a supplier in Laos, pursuant to which the supplier agreed to supply a minimum quantity of 100,000, 120,000, 150,000, 200,000 and 250,000 tonnes of dried cassava chips for each of the five years ending 31 December 2013. [The Group has [not] commenced purchases from this cassava supplier in Laos as at the Latest Practicable Date]. Under the terms of both long-term supply contracts, the purchase price is determined by reference to the prevailing market price and there is penalty imposed on the Group or the supplier if the minimum quantity of purchase or supply is not met. Such penalty is calculated on the basis of the outstanding unfulfilled quantities times by 10% of the prevailing market price at the end of the respective year. As to the Latest Practicable Date, there were no circumstances leading to the termination of the contracts and no occurrence that the minimum quantity of purchase or supply was not met during the Track Record Period. The Group also procures dried cassava chips directly from other exporters and the Group is responsible for the necessary shipping arrangement for the dried cassava chips purchased from those exporters.

BUSINESS

During each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, purchases from the five largest suppliers of the Group accounted for approximately [49.2]%, [52.8]%, [50.2]% and [58.9]% of the Group's total purchases, respectively, while the Group's largest supplier accounted for approximately [23.1]%, [18.7]%, [14.6]% and [19.5]% of the total purchase for the same period, respectively. The Group's weighted average purchase price of dried cassava chips for each of the three financial years ended 31 March 2008 and five months ended 31 August 2008 also fluctuated at approximately US\$[94.5] (equivalent to approximately HK\$740), US\$[100.9] (equivalent to approximately HK\$790), US\$[139.7] (equivalent to approximately HK\$1,100) and US\$[171.4] (equivalent to approximately HK\$1,300) respectively.

The Group believes that its proximity of location to cassava growers, processors or traders, its broad supplier base of over 200 suppliers, its established market share, its adequate warehouse capacity and working capital, its "365-day open door policy" to all suppliers of good quality cassava chips to its warehouses and its good reputation allow the Group to maintain sufficient supply of fresh cassava roots and dried cassava chips. While most of the Group's suppliers are located in Thailand, the Group intends to expand its procurement network in Southeast Asia, including but not limited to Cambodia and Laos. In respect of logistics arrangement, the Group intends to lease additional storage facilities and set up transportation fleet to expand its procurement and logistics networks.

In respect of its direct sales, either before or after the receipt of a purchase order, the Group will enter into a sourcing contract with its suppliers for dried cassava chips. The Group usually settles such purchases by letters of credit at sight or telegraphic transfers. In respect of sourcing for its sales from warehouses, the Group generally settles its purchases within the next two business days following delivery by cheque. The Directors believe that such payment policy would provide the Group with a better position for price negotiation, thereby reducing its purchase costs. As at 31 March 2006, 2007, 2008 and 31 August 2008, there were no outstanding trade payables.

Processing and drying of fresh cassava roots into dried cassava chips are carried out by a processor, on an exclusive basis, engaged by the Group in a drying yard in Khlong Lan, Thailand, having a site area of approximately 79,816m², pursuant to a management contract between Global Property and a Thai national, an independent party (the "**Processor**"). The contract is for a term of 30 years commencing from 16 January 2007. The Processor has been granted a right to occupy and use the land of the drying yard by the relevant governmental authorities perpetually commencing from 1 April 2008, provided that if the Processor is requested by the Ministry of Agriculture in Thailand, he needs to sign a lease agreement of the land for a period of 30 years at a nominal fee. As advised by the Company's Thai legal advisers, no such request has been received from the Ministry of Agriculture as at the [Latest Practicable Date.] The Group has granted an interest-free loan of THB5.6 million (equivalent to approximately HK\$1.3 million) to the Processor, and a processing fee of THB186,666 (equivalent to approximately HK\$41,800) is payable by the Group each year, which will be set off against the outstanding balance of the loan owed by the Processor to the Group. During the term of the loan, the Processor is prohibited from disposing its interests in the land of the drying yard without the prior written consent of Global Property. In addition, the Group has also been granted an option to purchase the land of the drying yard from the Processor exercisable by the Group when and if a proper

BUSINESS

title deed of the drying yard can be issued and Thai law is relaxed to permit Global Property to own the land of the drying yard at a price equivalent to the then outstanding balance of the loan at the time the option is exercised. As advised by the Company's Thai legal advisers, the provision of loan of THB5.6 million (equivalent to approximately HK\$1.3 million) in relation to the drying yard, the agreement of which is governed by the laws of Thailand, is legal, valid and enforceable under the Thai laws and the Group is not subject to any penalties as a result of the provision of such loan. The fresh cassava roots sourced by the Group amounted to approximately 533.1 tonnes for the financial year ended 31 March 2008 and [nil] tonne for the five months ended 31 August 2008. The Group sells its products either through direct sales or sales from warehouses. In respect of direct sales, either before or after the receipt of a purchase order, the Group will enter into a sourcing contract with its suppliers for dried cassava chips and the products will be shipped to the designated port of delivery without being stored in the Group's warehouses. In respect of sales from its warehouses, the Group's procured dried cassava chips will first be stored in the Group's warehouses in Thailand before the Group arranges for shipment to different customers.

The Group has established its foothold in its cassava procurement business in Thailand since 2001 and has maintained business relationships with over 200 cassava growers, drying yard processors and traders. The Group implements a "365-day open door policy" for purchases of dried cassava chips with payment generally within the next two business days as long as the chip quality meets the Group's requirements. This is seen by the Directors as a major barrier for new entrants as making such guarantee requires an adequate amount of working capital for sizable quantities of products.

For each of the three financial years ended 31 March 2008 and the five months ended 31 August 2008, purchases from the largest supplier accounted for approximately [23.1]%, [18.7]%, [14.6]% and [19.5]% respectively, and purchases from the five largest suppliers accounted for approximately [49.2]%, [52.8]%, [50.2]% and [58.9]% respectively, of the total purchases of the Group in the relevant year or period. [The largest supplier has been supplying cassava chips to the Group since 2001 and has been the Group's largest supplier for each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, having transaction amounts totalled to approximately HK\$[143.4] million, HK\$[112.1] million, HK\$[89.4] million and HK\$[54.9] million, respectively.] The Group has entered into a long-term supply contract with its largest supplier to ensure a stable source of supply is available to the Group. The Directors confirm that the largest supplier is an Independent Third Party.

The Directors confirm that none of the Directors, their respective associates or, so far as the Directors are aware, Shareholders who own more than 5% of the issued Shares (immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option) has any interest in any of the five largest suppliers of the Group during the Track Record Period.

BUSINESS

Inventories

The Group's inventories are dried cassava chips, which are stored principally in the Group's warehouses in Thailand. As at 31 March 2006, 2007, 2008 and 31 August 2008, the Group held inventories of dried cassava chips of approximately [225,786] tonnes, [180,297] tonnes, [49,157] tonnes and [41,227] tonnes, respectively.

The Group's inventories are principally stored in three warehouses located in Bangsai, Sriracha and Bangpakong with capacity of approximately 18,000 tonnes, 80,000 tonnes and [7,500] tonnes, respectively. Under the leases of its storage facilities in Bangsai, the Group also has the priority right to rent the other warehouses within the same location (subject to the first right to rent by the lessor and its affiliated companies), which altogether has an additional gross floor area of approximately 16,940m² and can store up to an additional about 67,000 tonnes of dried cassava chips. These warehouses are all strategically located and have custom-made equipment to facilitate the handling of bulk commodities, including cassava chips.

While the inventory level is generally maintained with reference to the seasonality of cassava supplies, it is the Group's policy to keep inventory level on or above certain minimum levels, which are reviewed by the management from time to time taking into account factors such as estimated trend on future consumption, the then prevailing inventory level and general market conditions, with the aim of minimising the risk of sales interruptions due to shortage of inventory supply.

The Group's warehouse staff is responsible for maintaining appropriate storage conditions for all the Group's dried cassava chips stored in the Group's warehouses in Thailand.

For each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, the Group's inventory turnover days calculated as the average ending inventory balances on its cost of goods sold was approximately [76.9] days, [87.8] days, [55.0] days and [33.0] days, respectively. The Directors consider that the gradual reduction in the inventory turnover days over the Track Record Period was mainly because of the Group's strategic actions to reduce the inventory holding period in order to mitigate the market risk when the price of cassava rises continuously during the Relevant Track Period, particularly during 2008, as reflected by the increase in the average selling price of the Group's sales from warehouse by approximately [36.8]% in the financial year 2008 from that in 2007.

The Group did not experience any incidence of inventory obsolescence during the Track Record Period.

BUSINESS

Membership certificates

As at the Latest Practicable Date, the Group possessed the following membership certificates:

Name of the Group member	Year of first membership	Membership	Organisation
Alush Thailand	2001	Ordinary class	TTTA
Global Property	2007	Ordinary class	The Thai Tapioca Products Factory Association

Under the applicable laws and regulations on export of standard commodities such as cassava products in Thailand, an exporter of cassava products must obtain the certificate showing the registration as exporter of standard commodity from the Office of the Commodity Standard (a governmental authority under the Ministry of Commerce of Thailand), which is subject to renewal each year, and an export licence from the Foreign Trade Department of the Ministry of Commerce for each export. 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 obtained the Certificates of the Exporter of Commodity Standard which are both valid until [31 December 2009].

As advised by the Company's Thai legal advisers, except for the Certificate of the Exporter of Commodity Standard, which needs to be renewed each year and the export license from the Foreign Trade Department of the Ministry of Commerce which is required for each export, there is no other license or certificate which is required for export on a continuing basis. The Directors and the Company's Thai legal advisers confirmed that the Group has obtained all necessary licenses and certificates for its operations.

TRANSPORTATION AND LOGISTICS

Warehouses facilities

The Group transports its products primarily by dry bulk vessels. In respect of sales from its warehouses, the dried cassava chips sourced by the Group from Thailand are stored in the Group's warehouses located in Bangsai, Sriracha and Bangpakong in Thailand before shipment. The Group's warehouse facilities in Bangsai, Ayutthaya, Thailand, has a gross floor area of approximately 5,217m² and can store up to about 18,000 tonnes of dried cassava chips. The Group has entered into two three-year leases, each commencing from 1 March 2008, in respect of the Bangsai warehouses with an option to extend the lease for a further three-year period. Under the aforesaid leases, the Group also has the priority right to rent other warehouses within the same location rented by the sub-lessor (subject to the first right to rent by the sub-lessor and its affiliated companies), which altogether has an additional gross floor area of approximately 16,940m² and can store up to an additional approximately 67,000 tonnes of dried cassava chips. It is

BUSINESS

strategically located near the Chao Phaya river. Since it is impracticable for large dry bulk vessels to travel along the Chao Phaya river, lighters are commonly used for transporting large quantities of cassava chips directly from the warehouse to the anchorage of the dry bulk vessels.

The Group leases the warehouse facilities in Sriracha, Chonburi, Thailand. It can store up to about 80,000 tonnes of dried cassava chips and has a gross floor area of approximately 10,300m². The facilities in Sriracha are equipped with a conveyor belt linking directly between the warehouses and the dry bulk vessel once the vessel is docked at the end of the 3 kilometre long conveyor belt. The Group has a right of priority to use the port, loading facilities and equipment, including the conveyor belt. This transportation method is regarded by the Directors as time-efficient and cost-effective for loading of dried cassava chips from the warehouse and directly onto the dry bulk vessel, since the use of lighters is not required for the transportation of dried cassava chips at the Sriracha facilities. The Group has entered into two three-year leases commencing from 1 April 2008 in respect of the warehouse facilities in Sriracha, one of which gives Alush Thailand an option to extend for an additional three-year period and the other one shall automatically be extended for another three-year period unless Alush Thailand gives advance notice to abort the contract.

The Group also leases another warehouse facilities in Bangpakong, Thailand, with a gross floor area of approximately [2,640]m² and allows the Group to store up to about [7,500] tonnes of dried cassava chips. Bangpakong is located in north of Sriracha and is near the Bangpakong River. Similar to the logistics arrangement in Bangsai, lighters are used for transporting large quantities of cassava chips directly from the warehouse to the anchorage of the dry bulk vessels. The Bangpakong facilities are under a one-year lease, commencing from 19 November 2008 and three months' prior notice is required for extension of the lease.

The vicinity of its warehouses to the port facilities allows the Group to shorten the lead time for cargo readiness of its products. For example, it would take about three days for the Group to deliver up to about 40,000 tonnes of dried cassava chips from its various warehouses to a dry bulk vessel berthed at the port near Sriracha and load the lighters with dried cassava chips from all the Group's warehouses where the lighters would transport the goods to the port near Sriracha and load the goods onto the dry bulk vessel.

The Directors are of the view that strategic locations of the Group's three leased warehouses in Thailand are significant to the Group's operations. The specific facilities equipped at the warehouses shorten the time taken by the Group to prepare for cargo readiness. These warehouses are located near ports in Thailand that are capable of handling dried cassava chips efficiently and from where the Group's cassava chips are arranged to be shipped to the PRC.

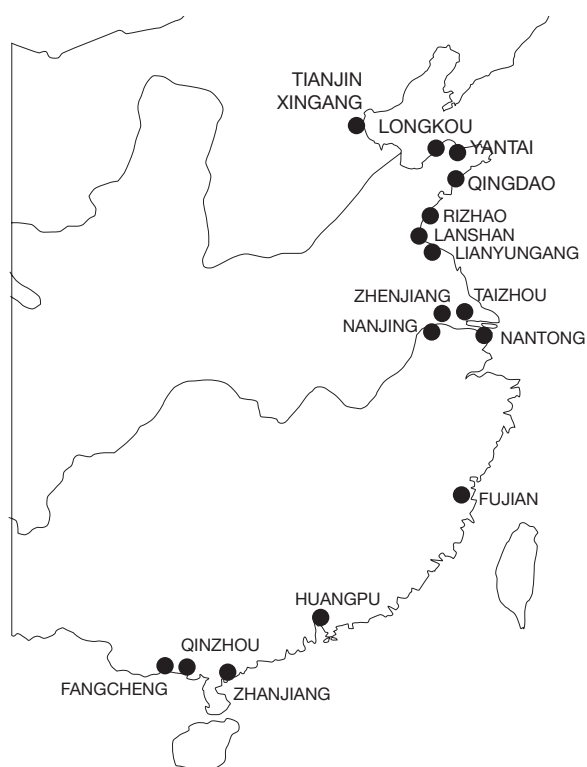
Independent surveyors are appointed to monitor the entire loading process to ensure that the volume loaded as well as the quality of the products match the specifications for each order.

BUSINESS

Shipping arrangement

During the Track Record Period, the Group have had business relationships with a network of over 80 dry bulk vessel operators. The vessels of these operators have capacities ranging from 5,000 tonnes to 50,000 tonnes. The Group selects the appropriate dry bulk vessel operators according to the size of its orders on hand and anticipated demand, the delivery schedules and the port of unloading. Timing is often critical for vessel operators as rental charges for vessels and port charges may be accrued on a daily basis. Shippers, whose cargoes can match the capacity of the vessel as well as the operators' shipping schedule so that goods can be loaded on board once the vessel is berthed, stands in a good position to negotiate shipping terms with the vessel operators as they need to minimise vacant period to reduce their overhead costs. Given the Group's sales volume, it is flexible for the Group to match the individual capacity and shipping schedule of the operators with its orders on hand. The Group has a right of priority to use the port, loading facilities and equipment at the warehouse, including the 3 kilometres long conveyor belt equipped at the Group's leased warehouse in Sriracha. The proximity of its warehouses in Bangsai, Sriracha and Bangpakong to the port facilities also shorten the lead time for cargo readiness, which is a competitive advantage for the Group to negotiate shipping terms with vessel operators.

The Group has delivered its products through various seaports in the PRC since 2001, as shown in the following map:



BUSINESS

After the Group has fixed the main shipping terms with the vessel operator, a local port agent will be appointed in Thailand to handle and co-ordinate the entire loading arrangement. The vessel operator or the port agent will provide the estimated arrival notice to the Group in order to allow adequate time for the Group to prepare for its cargo. After the Group obtains such notice, it will make preparation for loading its products onto lighters where appropriate. The vessel operator will issue a notice of readiness to notify the Group that the vessel is ready for loading at the port. During the loading process, the independent surveyor and fumigator will be on board to carry out inspection, fumigation and monitoring. A phytosanitary certificate certifying that the cassava chips have been inspected and/or tested according to appropriate official procedures will be issued by the Department of Agriculture after fumigation treatment is completed.

The Group will give prior notice to its customers for the estimated arrival time of the shipment around the time the vessel departs from Thailand so that the customers have adequate time to arrange for collection.

Delays in delivery may occur due to the weather conditions. To prevent or deal with delays, the Group has implemented various measures, including notifying its customers to pay in advance so that the Group can prepare goods earlier, communicating with the vessel operators, managing transportation and logistics in a timely manner.

During the Track Record Period, the Group had not experienced any incident or significant delay in product delivery or entry rejection by the relevant PRC customs authorities.

QUALITY CONTROL

The Group's quality objective is to pursue a high and consistent quality standard to meet the demands and requirements of the customers and the market. To achieve the Group's quality objective, the Group has implemented adequate quality control system. The Group's quality control department is responsible for formulating and implementing the quality control systems and ensuring that the quality of its products is in compliance with the relevant industry standards.

The Group places emphasis on quality control and quality assurance throughout its business process from sourcing of cassava chips to inspection of vessel conditions. The Group's laboratory testing centres in Thailand facilitate the quality control team of the Group in managing the procurement processes and maintaining quality standards. In particular, quality inspections and immediate on-site sample testing are conducted twice prior to acceptance of all incoming cassava chips delivery. The Group has testing laboratories at its leased warehouses to test the moisture and sand content of all incoming cassava chips in order to ensure they meet the Group's quality standards.

For incoming fresh cassava roots, the Group's staff in the procurement team is required to inspect the roots in respect of their size, colour, freshness and whether containing any excessive sand. For direct sales, an independent surveyor will be appointed to oversee the quality and the loading process of dried cassava chips to ensure that the Group's requirements on chip quality are met.

BUSINESS

As cassava is a perishable crop, dried cassava chips are intrinsically more suitable for storage than fresh cassava roots. Dried cassava chips is typically stored under dry condition. The Group performs check-up on its cassava chips' storage conditions.

In order to monitor the quality of the Group's dried cassava chips, independent surveyors are engaged to perform batch sample testing during the process of loading onto dry bulk vessel, for both sales from warehouse and direct sales, to ensure that the quality of its cassava chips meets the Group's customers' requirements. As at the Latest Practicable Date, the Group had [15] employees in its quality control department. The Group's PRC customers would only accept shipments with the agreed level of starch content certified by relevant surveyors.

The Group will continue to place emphasis on the importance of quality control, including but not limited to hiring experienced people in the industry, which the Directors believe to be crucial for the Group's ongoing pursuit of high quality standards.

SALES AND MARKETING

Sales

During the Track Record Period, over 99% the Group's revenue was generated from sales of dried cassava chips to the PRC market. The Group sells its products through its own sales and marketing team to its customers. The Group focuses on customers with annual aggregate purchases of over 5,000 tonnes. For each of the three financial years ended 31 March 2008 and the five months ended 31 August 2008, the total number of customers with annual aggregate purchases of 5,000 tonnes or above were 21, 22, 26 and [9] respectively, representing approximately 100%, 100%, 99% and [98]% respectively of the Group's total revenue.

As a matter of national direction, the production capacity of ethanol fuel projects with grain feedstock, such as maize, as raw material will not be increased in the PRC. Therefore, 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 an increase in the demand for imported dried cassava chips in the PRC. The Group's average selling price of cassava chips in the PRC has increased from approximately US\$[125.18] (equivalent to approximately HK\$980) per tonne to US\$[216.26] (equivalent to approximately HK\$1,700) per tonne with a CAGR of approximately [17.33]% during the Track Record Period. The Group has maintained its leading position in the PRC as the largest supplier of imported dried cassava chips from Thailand with market share of approximately [25.8]%, [20.6]% and [23.4]%, based on the information of the total amount of cassava chips exported from Thailand to the PRC as set out in TTTA's annual reports and the total amount of cassava chips sold by the Group to the PRC market for the relevant years during the three years from 2005 to 2007.

BUSINESS

Marketing

The Group has its own sales and marketing team which is responsible for market research and deploying the overall marketing plan of the Group. As at the Latest Practicable Date, the Group had a team of [19] sales and marketing personnel responsible for liaising the procurement of sales orders, maintaining customers' relationships, formulating its sales and marketing strategies, conducting market researches and organising its marketing functions. The Group's sales and marketing team is entrusted with the tasks to promote sales and collect market information to facilitate the development of monthly sales targets and annual sales plans as well as the Group's overall marketing strategy. The majority of the Group's marketing personnel are located in the PRC. The sales and marketing functions are mainly performed by Artwell Tapioca, Artsun Macao and Rizhao Yushun.

For the financial year ended 31 March 2008, to support the Group's marketing in the PRC, part of the marketing and liaison services of the Group were provided through a composite services agreement made between Rizhao Yushun, as service recipient, and Jinan Yaxin Real Estate Development Co. Ltd. (濟南雅新房地產開發有限公司) as service provider, a wholly foreign owned enterprise indirectly controlled by Mr. Chu. As part of the Reorganisation, the Group hired all of the employees who were previously providing marketing services to the Group pursuant to the aforesaid agreement.

The Group's marketing personnel contacts its PRC customers on a regular basis to maintain customer relationships and obtain feedbacks from customers. The marketing personnel made arrangements to invite PRC customers to visit the Group's warehouses and transportation facilities in Thailand to promote customers' relationship and confidence. The Group's senior management would set out monthly sales targets and annual sales plans for its sales teams. Periodic reviews are conducted to evaluate the performance of the Group's sales and marketing personnel. The Group has a performance-linked incentive system under which its sales personnel are rewarded according to their performance and achievements.

The main function performed by Artsun Macao was sales and marketing. With the assistance of the Group's functional teams in the PRC, Hong Kong and Thailand, the sales team of Artsun Macao is responsible for contacting customers in the PRC, negotiating and concluding sales terms with the PRC customers in Macau, liaising with the Hong Kong shipping team on logistics and shipping arrangements[, and liaising with the Thailand procurement and warehouse team on arranging goods delivery].

The Group's products are mainly sold under the brand "Artwell" which is well known to its customers.

The Group has five offices and liaison centres located in various cities in the PRC, namely Rizhao, Qingdao, Jinan, Lianyungang and Shenzhen. In order to serve its customers in the eastern and north-eastern China, the Group ships its cassava chips from Thailand to ports in China namely Rizhao, Lianyungang and Lanshan, which are equipped with the unloading of bulk goods, such as cassava chips.

BUSINESS

The Group also participates in conferences held in the PRC in relation to the PRC alcohol industry. Furthermore, the Group organised symposium in the PRC to provide its customers or potential customers a platform for their interaction with the Group.

Customers

The Group sells its quality products mainly under the "Artwell" brand with timely delivery to its customers. The "Artwell" brand is well-known among the Group's PRC customers. During the Track Record Period, the Group's customers included traders and manufacturers of consumable ethanol, ethanol fuel and chemical products, which are the products of the manufacturers using the Group's dried cassava chips in their production process.

The Directors are of the view that the Group has established a good relationship with its customers. The top five largest customers of the Group for the Track Record Period have established business relationships with the Group ranging from two to seven years.

During each of the three financial years ended 31 March 2008 and five months ended 31 August 2008, sales to the five largest customers of the Group accounted for approximately [65.1]%, [62.0]%, [57.2]% and [76.0]% of the Group's total revenue, respectively, while the Group's largest customer accounted for approximately [24.5]%, [22.1]%, [19.0]% and [28.3]% of the total revenue for the same years or period, respectively.

The Group maintains business relationship with Henan Tianguan since 2001, an Independent Third Party and one of the five largest customers of the Group in the financial year ended 31 March 2008. According to the 《可再生能源發展「十一五」規劃》 (Development Plan for Renewable Energy in the 11th Five-Year Plan) announced by the NDRC in March 2008, a subsidiary of Henan Tianguan is an authorised ethanol fuel producer in the PRC. As confirmed by Henan Tianguan, it sources cassava chips for such subsidiary for production of ethanol fuel. The Group had supplied cassava chips to Henan Tianguan in calendar years of 2001, 2002, 2003, 2004, 2007 and 2008. However, the Group did not record any sales to Henan Tianguan in its financial statements for each of the two financial years ended 31 March 2007 because Henan Tianguan was able to use old grain-based materials (陳化糧) in the PRC auctioned by the PRC government for the production of ethanol fuel by its subsidiary during the period. Henan Tianguan was one of the top five customers of the Group in the financial year ended 31 March 2008 and was the seventh largest customer of the Group for the five months ended 31 August 2008. The Directors are not aware of any publicly available information on the entrant criteria for qualifying as authorised ethanol fuel producers in the PRC. In view of the Renewable Energy Plan and the anticipated high demand for ethanol fuel in the PRC, the Directors are of the view that the Group is in a position to tap into these market opportunities.

BUSINESS

The Directors confirm that none of the Directors, their respective associates or, so far as the Directors are aware, Shareholders who own more than 5% of the issued Shares (immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option) has any interest in any of the five largest customers of the Group during the Track Record Period.

Credit policy

In general, the Group currently and mainly accepts [90-180] day letters of credit as settlement method by its customers or by [telegraphic bank transfer] or [cheque] on delivery. During each of the three financial years ended 31 March 2008 and for the five months ended 31 August 2008, settlement by means of letter of credit accounted for approximately [96.4]%, [82.4]%, [84.3]% and [99.5]%, respectively of the Group's total revenue.

The Group adopts a specific provision policy against any long outstanding doubtful debts. The Group's senior management regularly reviews overdue balance to assess the recoverability and collectibility of such amounts. Besides, the management keeps track of the Group's customers' business and financial conditions by making frequent contacts or visits. During the Track Record Period, no bad debt has been recorded.

For each of the three financial years ended 31 March 2008 and the five months ended 31 August 2008, the turnover of the Group's bills receivables over revenue was about [35.5] days, [27.7] days, [11.2] days and [9.8] days respectively. Although the Group currently and generally accepts [90-180] day letter of credits, the Company may discount the relevant bills so as to improve its working capital.

COMPETITION

Procurement network

In terms of the cassava chips procurement, the Group competes with its rivals on attracting cassava growers, processors and cassava traders in purchasing high quality fresh cassava roots and cassava chips for processing or sale. The Group also competes with other cassava starch and pellets manufacturers for both fresh cassava roots and dried cassava chips. Since there are many cassava growers, processors as well as traders spreading across different regions in Thailand, the Group has to rely on its network of growers, processors and traders in order to secure reliable and adequate sources of supplies. The Group is well-known among its suppliers in the cassava business in Thailand for its "365-day open door policy" for purchase of dried cassava chips with payments generally within the next two business days as long as the chip quality fulfils the Group's requirements. This is considered by the Directors a hurdle to the Group's competitors for implementing such business strategy requires adequate working capital and storage facilities, and an established sales network. The Group has built up good business relationship with its major suppliers. Some of the Group's top 10 largest suppliers during the Track Record Period have business relationship with the Group for

BUSINESS

over five years. The Group also has entered into two long-term supply contracts with its suppliers to secure stable supplies of cassava. The Group also intends to expand its procurement networks in Cambodia, Laos, Vietnam and Indonesia so as to further strengthen its cassava supplies.

Based on information from the TTTA's annual reports from 2003 to 2007, Alush Thailand's and other top five exporters' market shares by export volume of dried cassava chips are as follows:

Exporters (Shipping volume rounded to the nearest '000 tonnes)	2003		2004		2005		2006		2007	
	Approximate percentage		Approximate percentage		Approximate percentage		Approximate percentage		Approximate percentage	
Alush Thailand (Note)	612	31.0%	480	18.7%	494	17.9%	676	17.0%	562	18.0%
Top 5 exporters (other than Alush Thailand)	781	39.6%	1,175	45.7%	1,283	46.4%	1,918	48.4%	1,304	41.7%
Others	<u>581</u>	29.4%	<u>915</u>	35.6%	<u>989</u>	35.7%	<u>1,373</u>	34.6%	<u>1,264</u>	40.3%
Total	<u>1,974</u>	100%	<u>2,570</u>	100%	<u>2,766</u>	100%	<u>3,967</u>	100%	<u>3,130</u>	100%

Note: Alush Thailand ranked number one from 2003 to 2007.

PRC sales network

The diversified usage of cassava chips by different industries in the PRC provides a driving force for the surge in the demand of cassava chips. The Group has an established sales network in the PRC with customers of trading companies, manufactures of ethanol fuel, consumable ethanol and chemical products. The Group has had business relationships for a range of two to seven years with its top five largest customers for the Track Record Period. While the Group competes with its rivals in terms of quality and pricing of its cassava chips, it also competes on the basis of timely delivery and prompt order fulfillment. Based on the annual reports of TTTA, the Group ranked the largest in terms of volume of dried cassava chips imported into the PRC from Thailand from 2003 to 2007. The Directors believe that the Group's sales network in the PRC will continue to expand as a result of increase in demand for ethanol fuel.

The Directors consider that the PRC cassava chips supply 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. According to the Cassava Market Report, in 2007, over 69% of dried cassava imported into the PRC were sourced from Thailand. As the Group has a well-established cassava chips procurement network, the Directors believe that it would take considerable time for new entrants to set its foothold in Thailand. The Directors consider that the Group is competing with approximately over 30 cassava chips suppliers in the PRC. Based on the annual reports of the TTTA, the Group had been the largest exporter of cassava chips in Thailand from 2003 to 2007, the Directors believe that other competitors would find it difficult to compete

BUSINESS

with the Group which has an edge over its competitors as it has well-established procurement network in Thailand and delivery logistics capability. Since the production capacity of ethanol fuel projects with 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.

While the Group's major customers primarily include traders and manufacturers of ethanol fuel, consumable ethanol and chemical products, the Directors believe that there will be increasing demand for cassava from ethanol fuel producers in the PRC.

The Directors believe that as the majority of PRC imported cassava chips are sourced from Thailand, the Group and its competitors are subject to similar cassava chips market pricing fluctuations. Overall, the Group believes its competitiveness lies with its commitment to provide consistent quality product and its efficient cost control.

SAFETY AND ENVIRONMENTAL PROTECTION

There are laws and regulations with respect to environmental protection in Thailand, under which all enterprises that discharge contaminants and other pollutants must take effective measures to prevent and cure the pollution and damage caused by pollutants that occurred as a result of their business activities. As advised by the Company's Thai legal advisers, each of Alush Thailand and Global Property is not subject to any requirement on environmental control laws in Thailand, since they are not engaged in any factory or manufacturing activities which are strictly controlled by authority on environmental matters in Thailand.

日照市環保局東港分局 (Rizhao Environmental Protection Bureau Donggang Branch) issued a confirmation letter on 31 March 2008 confirming that Rizhao Yushun's operation has been in compliance with the Environmental Protection Law since its establishment and up to the date of the confirmation.

As advised by the Company's PRC legal advisers, Rizhao Yushun is not a production oriented enterprise (生產型企業), therefore it is not subject to the production safety regulations.




As advised by the Company's Thai legal advisers, every company in Thailand must register itself and its employees with the Office of the Social Security ("OSS") and shall contribute an equal amount of employee's contribution to the OSS on a monthly basis. Currently, the rate is 5% of the monthly salary, subject however to a capped salary of THB15,000 (equivalent to approximately HK\$3,400) for this purpose. At present, both Alush Thailand and Global Property have registered themselves with OSS and as per Company's Thai legal advisers' knowledge, Alush Thailand and Global Property have not been in violation of the relevant law on social security for their own employees.

BUSINESS




Save as disclosed above, the Group is not subject to any environmental rules and regulations arising from the trading of cassava chips, whether directly or indirectly. After having made reasonable enquiries, the Directors confirm that the Group has not committed any material breach of the relevant PRC environmental protection laws and regulations during the Track Record Period. The Directors confirm that the Group's operations are in compliance with the currently applicable labour and safety regulations in all respects and the Group does not have any non-compliance records in labour and safety matters.

INTELLECTUAL PROPERTY RIGHTS








The Group conducts its business principally under its trademark "Artwell", which is registered in the PRC. 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. Details of the relevant trademarks are as follows:

Trademark	Place of registration	Class	Registration number	Date of submission of application for approval of assignment
雅  禾 Artwell	PRC	30	3488176	21 July 2008
 Artwell	PRC	29	3488192	21 July 2008
雅  禾 Artwell	PRC	31	3488193	21 July 2008






As at the Latest Practicable Date, the Group was the registered owner of the following trademarks:

Trademark	Place of registration	Class(es)	Registration number	Registration date	Expiry date
雅  禾 Artwell	Hong Kong	29, 30	301087452	8 April 2008	7 April 2018
 Artwell	Hong Kong	29, 30	301090124	10 April 2008	9 April 2018
雅  禾 Artwell	Hong Kong	31	301142748	18 June 2008	17 June 2018

BUSINESS

Trademark	Place of registration	Class(es)	Registration number	Registration date	Expiry date
 Artwell	Hong Kong	31	301142739	18 June 2008	17 June 2018
雅  禾 Artwell	Macau	29	N/36125	30 October 2008	30 October 2015
 Artwell	Macau	29	N/36121	30 October 2008	30 October 2015
雅  禾 Artwell	Macau	30	N/36126	30 October 2008	30 October 2015
 Artwell	Macau	30	N/36122	30 October 2008	30 October 2015
雅  禾 Artwell	Macau	31	N/36818	24 November 2008	24 November 2015
 Artwell	Macau	31	N/36817	24 November 2008	24 November 2015

As at the Latest Practicable Date, the Group has applied for registration of the following trademarks, but registration of which has not yet been granted:

Trademark	Applicant	Place of application	Date of application	Class(es)	Application number
 ANE	Art Ocean	Hong Kong	18 September 2008	29, 30, 31	301204154
 ACR	Art Ocean	Hong Kong	31 December 2008	29, 30, 31	301266471
 Artwell	Art Ocean	Thailand	28 May 2008	29	696609
 Artwell	Art Ocean	Thailand	28 May 2008	30	696611
 Artwell	Art Ocean	Thailand	25 June 2008	31	699935

Further information relating to the trademarks assigned is set forth in the paragraph headed ["Intellectual property rights"] under the section headed "Further information about the business" in Appendix [V] to this document.

BUSINESS

The Group has applied for registration of various trademarks in Thailand, Hong Kong and Macau. [As at the Latest Practicable Date, the approval for the Group's applications for registration of certain trademarks in [Thailand and Hong Kong are still pending]. As advised by the legal advisers to the Company, no legal impediment is envisaged for such assignment in the PRC nor for the completion of registration of such trade marks in Thailand and Hong Kong in the circumstances. The potential risk of the incomplete assignment or registration of the Group's trademarks is set out in the paragraph headed "Incomplete assignment and registration of trademarks" under the section headed "Risk factors" in this document.

In any event, unregistered trademarks may be protected by the common law action of passing off in Hong Kong [and other civil actions in Thailand. The Directors believe that the Group is able to prove the goodwill and reputation in the names and marks of its products in Hong Kong and Thailand. If any person trades cassava products in Hong Kong or Thailand using a mark or trade name which leads or is likely to lead the public to believe that those cassava chips are the Group's or such person's business is connected with the Group, the Group is entitled to commence civil actions against such person. Therefore, even though the trademark applications in Hong Kong and [Thailand have not been approved by the respective trademark registration authorities, the Directors believe that the non-registration will not have any material adverse impact on the Group's business.

Further information relating to the trademark of the Group is set forth in the paragraph headed "Intellectual property rights" under the section headed "Further information about the business" in Appendix [V] to this document.

[As at the Latest Practicable Date, the Group had not given any consent to any other party for the use of any trademarks owned by the Group.] The Directors confirm that they are not aware of (i) any material infringement of trademarks used by the Group during the Track Record Period; and (ii) any litigation or material disputes regarding the intellectual property rights used by the Group during the Track Record Period.

PROPERTY INTERESTS

As at the Latest Practicable Date, the particular of the properties owned or leased by the Group companies are set out as follows:

Properties held and occupied by the Group in Hong Kong

The Group owns offices located at Unit No. 13 and 17 on 6th Floor, Houston Centre, No. 63 Mody Road, Kowloon, Hong Kong with floor area of approximately 124m² and 115m² respectively. [Both of these units are used by the Group as part of its head office and principal place of business in Hong Kong.]

BUSINESS

Properties held and occupied by the Group in PRC

The Group owns office located at Unit 1 on 2nd Floor, Block 1 at No. 22 Dongshen Road, E-gong Ling, Pinghu Town, Longgang District, Shenzhen City, Guangdong Province, the PRC with floor area of approximately 30m². This unit is used by the Group as its [liaison centre] in Shenzhen.

Properties held by the Group in Hong Kong for investment purpose

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessee	Usage
Unit No. 1 on 7th Floor, Houston Centre No. 63 Mody Road, Kowloon, Hong Kong	124	1 February 2007 – 31 January 2011	[An Independent Third Party]	[Office]
Unit No. 2 on 7th Floor, Houston Centre No. 63 Mody Road, Kowloon, Hong Kong	120	1 August 2007 – 31 July 2011	[An Independent Third Party]	[Office]
Unit 12 on 12th Floor, Seapower Tower Concordia Plaza, No. 1 Science Museum Road Kowloon, Hong Kong	88	1 September 2007 – 31 August 2009	[An Independent Third Party]	[Office]
Unit 2 on 5th Floor of Tower A, New Mandarin Plaza No. 14 Science Museum Road Kowloon, Hong Kong	75	18 October 2007 – 17 October 2009	[An Independent Third Party]	[Office]

Property owned by the Group in the PRC for investment purpose

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessee	Usage
A factory complex at (excluding unit 1 on 2nd floor of Block 1) No. 22 Dongshen Road E-gong Ling, Pinghu Town, Longgang District Shenzhen City, Guangdong Province the PRC	1,348.80	1 July 2007 to 30 June 2010	A connected person – A luck Limited	Factory

As advised by the Company's PRC legal advisers, the Group has obtained the title certificate of the property and the title of the property, subject to the compliance of the terms of land assignment agreement, can be freely transferred, leased or charged in the market.

BUSINESS

Properties rented by the Group in the PRC

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessor	Usage
Unit 301, West Wing No. 5 Xixia Road (also known as Lu Gou Hai Tang Road), Lianyungang District Lianyungang City Jiangsu Province the PRC	57	1 April 2008 – 31 March 2011	A connected person – Lianyungang Yafa Enterprise Co., Ltd.	Office

As advised by the Company's PRC legal advisers, (1) according to the land use rights certificate (ref. no. Lian Guo Yong (2004) Zi Di A000004) and the building ownership certificate (ref no. Lian Fang Quan Zheng Lian Zi Di L00106557) dated 23 March 2004 and 31 March 2004 respectively, the subject building (including the property) with a gross floor area of 1,339.92 square metres is held by Lianyungang Yafa Enterprise Co., Ltd. (連雲港雅發實業有限公司) ("Lianyungang Yafa"); (2) Lianyungang Yafa being the landlord of the property has the right to lease out the property; (3) the agreed use stated in the tenancy agreement is consistent with the permitted use of the property; (4) Rizhao Yushun is not subject to any oppressive or unreasonable terms and conditions under the tenancy agreement; (5) Rizhao Yushun has the right to occupy the property during the term of the tenancy agreement; (6) the tenancy agreement is legal, valid and enforceable between the parties to the agreement; and (7) although leasing registration of the tenancy agreement at the relevant government authorities has not yet been proceeded, no penalty will be imposed on the lessee.

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessor	Usage
Unit No. 3203 on 32nd Floor, Block 1, Jindu Garden No. 37 Donghai Xi Road, Shinan District Qingdao City, Shandong Province the PRC	114.04	1 April 2008 – 31 March 2011	Mr. Chu	Dormitory/office

As advised by the Company's PRC legal advisers, (1) according to the building and land ownership certificate (ref no. Qing Fang Di Quan Shi Zi Di 58784) dated 29 December 2002, the property is owned by Mr. Chu. As no land use rights certificate is provided to the PRC legal advisers, they are unable to ascertain whether Mr. Chu, being the landlord of the property, is the owner of the land portion of the property. The Group's leasehold interest in the property may be affected in case where there is dispute on land title; (2) the actual use of the property as office is not consistent with the agreed use stated in the tenancy agreement, the lessor has the right to terminate the tenancy agreement and forfeit the property and the lessee shall be responsible for any loss incurred by the lessor; and (3) although leasing registration of the tenancy agreement at the relevant government authorities has not yet been proceeded, no penalty will be imposed on the lessee.

BUSINESS

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessor	Usage
Eastern portion of 4th Floor Rizhao Artwell International Hotel No. 96 Xing Hai Road Rizhao City, Shandong Province the PRC	56	1 April 2008 - 31 March 2011	A connected person - Rizhao Artwell International Hotel Co. Ltd.	Office

As advised by the Company's PRC legal advisers, (1) Rizhao Artwell International Hotel Co. Ltd. (日照雅禾國際大酒店有限公司), being the landlord, is the sole owner of the property and has the right to lease out the property; (2) the agreed use stated in the tenancy agreement is consistent with the permitted use of the property; (3) Rizhao Yushun is not subject to any oppressive or unreasonable terms and conditions under the tenancy agreement; (4) Rizhao Yushun has the right to occupy the property during the term of the tenancy agreement; (5) the property is subject to a mortgage, and the mortgagee has the right to terminate the lease agreement if the mortgage is enforced; (6) the tenancy agreement is legal, valid and enforceable between the parties to the agreement; (7) although leasing registration of the tenancy agreement at the relevant government authorities has not yet been proceeded, no penalty will be imposed on the lessee.

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessor	Usage
Unit Nos. 320-2, 3rd Floor No. 137 Lishan Road, Lixia District Jinan City, Shandong Province the PRC	25	19 December 2008 - 18 December 2009	An Independent Third Party	Office

As advised by the Company's PRC legal advisers, (1) since they have not been provided with the title certificates of the property concerned, they are unable to ascertain whether the lessor has the right to lease out the property to Rizhao Yushun. Therefore, the validity of the tenancy agreement by which the property is rented by the Group is uncertain; (2) in case where the tenancy agreement is void, the lessee shall surrender the property to the lessor. However, this does not deprive the Group from enforcing the dispute resolution clauses in the tenancy agreement and both parties are kept binding on those clauses; (3) in case where the agreed use stated in the tenancy agreement is not consistent with the permitted use of the property, the tenancy agreement may be regarded void; and (4) although leasing registration of the tenancy agreement at the relevant government authorities has not yet been proceeded, no penalty will be imposed on the lessee.

BUSINESS

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, the leased area of each of which ranges from about 25 to 115 m². Out of these leased properties, (i) the landlord 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 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 from a connected person is subject to a mortgage. If the mortgage is enforced, the mortgagee has the right to terminate the lease agreement. 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. The Company's PRC legal advisers also confirm that save for (i) in respect of the leased property in Jinan, in case where the agreed use stated in the tenancy agreement is not consistent with the permitted use of the property, the tenancy agreement will be void; and (ii) the actual use as office under the lease of Qingdao Office did not comply with the agreed use as staff quarter, there is no other illegal use of the relevant properties. Given (1) none of the group companies of the Company is an infrastructure project company nor a property company; (2) the four leased premises in the PRC serve as the offices and liaison points of the Group, function of which are only for working places for the marketing staff in the PRC; (3) the assets placed in these four leased premises are mainly office equipment and are not trading materials; (4) the leased floor area for each of the 4 leases are only about 25, 56, 57 and 114 square meters, respectively; and (5) in the opinion of the Directors, in case of any dispute as to the legal title of 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 which leads to any relocation of the relevant office, additional expenses to be incurred and the time to be spent on in relation to such relocation is immaterial and the effect on the Group's business operations arising therefrom should not be material, the Directors consider that the relevant properties were not crucial to the Group, the Directors do not consider such imperfect title and non-registration of lease agreements, may affect the Group operation in any material aspect.

Each of Mr. Chu and AR Management has jointly and severally undertaken to indemnify and to keep each of the members of the Group fully indemnified in respect of any loss, damages, liability, relocation cost and disruption in operation suffered by any of the members of the Group as a result of or in connection with the forfeiture of the tenancy under any of the lease agreements due to any failure of any of the lessors of the leased properties under the lease agreements to comply with the requisite procedures (including but not limited to registration or filing of the lease agreements with the relevant PRC governmental authorities) under the applicable PRC laws and regulations in respect of the lease agreements and/or any of the lessors does not have the building ownership right or land use right in respect of the leased properties or has not obtained the required land use right certificate and building ownership certificate in respect thereof, or otherwise does not have the right, authority or capacity to grant the tenancy of the leased properties under the lease agreements or the actual use of any of the leased properties does not comply with the permitted use under the relevant land use right certificate and building ownership certificate.

BUSINESS

Where the relevant office has to be relocated, the Directors undertake to ensure that such relocation of property has proper title. However, the Directors cannot confirm when such relocation will take place. The Directors consider it not a practical difficulty to find a replacement premises in the locality within a relatively short period of time and without significant additional cost nor inconvenience.

Properties rented by the Group in Macau

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessor	Usage
Unit F on 28th Floor Edifício Comercial I Tak No. 126 Rua da Pequim Macau	70.10	17 January 2009 – 16 January 2011	An Independent Third Party	Office

Property rented by the Group in Hong Kong

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessor	Usage
Unit No. 12, 6th Floor, Houston Centre No. 63 Mody Road, Kowloon, Hong Kong	120	1 April 2008 – 31 March 2010	A connected person – Alther Limited	Office

Properties rented by the Group in Thailand

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessor (<i>Note</i>)	Usage
Warehouses No. 4 5/4 Moo 8, Tambon Bangpakong Amphoe Bangpakong, Chachoengsao Province Thailand	2,640	19 November 2008 – 19 November 2009	An Independent Third Party	Warehouses
Warehouses Nos. 3 and 9 59 Bangsai-Chiongranoi Road Changyai Sub-district, Bangsai District Ayudhdhaya Province Thailand	5,217	1 March 2008 – 28 February 2011	An Independent Third Party	Warehouses

BUSINESS

Address	Approximate gross floor area <i>m</i> ²	Term of lease	Lessor (<i>Note</i>)	Usage
Warehouses no. 1 and no. 2 No. 88 Moo 4 Sukhumwit Rd., Sriracha Chonburi 20110, Thailand	10,300	1 April 2008 – 31 March 2011	An Independent Third Party	Warehouses

Note: Save for the lease of warehouse no. 2 in Sriracha, all of the other properties leased by the Group in Bangsai and Sriracha are sub-leased by the Group from the lessors of the relevant properties. As advised by the Company's Thai legal advisers, the relevant lessors have the right to sub-lease the properties to the Group.

For the warehouses in Bangpakong, the Company's Thai legal advisers were unable to confirm the ownership of the lessor. However, under Thai laws as supported by Thailand Supreme Court judgments, a 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 opinion of the Company's Thai legal advisers, the lease agreement is legal, valid, subsisting, binding and enforceable against the parties thereto under the laws of Thailand complies with the Thai laws and regulations. In the event it appears that the lessor in fact does not have the right to lease out the said property due to any reason or the lessor's right is terminated by any means, the lessee will not be subject to any penalty or claims since it legally entered into the relevant lease agreement with good faith.

The present use of each of the leased properties in Thailand is permitted use for the purpose of the relevant planning or building regulations or the relevant approval (if appropriate) and is not adversely affected by any planning or regulations.

All the lease agreements in Thailand are not required to register or file with any authority since none of the lease term therein is longer than 3 years.

Further particulars of the Group's property interests are set out in the valuation certificate of its property interests prepared by Asset Appraisal Limited, the text of which is set out in Appendix [III] to this document.

INSURANCE

The Group maintains insurance coverage on its inventories stored at its leased warehouses in Thailand. Cargo insurance for shipment is generally effected by the Group's customers pursuant to the shipment terms or occasionally by the Group on behalf of its customers if the customers fail to take out the insurance cover.

The Group has purchased insurance and made contributions to various social insurance for its employees in the PRC. Please refer to the paragraph headed ["Staff Benefit"] in the section headed "Directors, senior management and staff" in this document for detail of the social insurance for employees in the PRC.

BUSINESS

The Group does not maintain any insurance coverage for product liability. The Company's PRC legal advisers also advised that, for the products currently sold by the Group, there is no mandatory product liability insurance required to be adopted in the PRC. The Directors consider that it is not necessary to purchase product liability insurance as the Group's products are sold as ingredients to other producers/manufacturers and trading companies for further processing and/or sale. The Directors are of the view that the coverage of the insurance policies of the Group is adequate and are in compliance with the relevant rules and regulations in the PRC.

The Directors confirm that the Group had not experienced any product liability claim throughout the Track Record Period.

DETAILS OF CONTINUING CONNECTED TRANSACTIONS

Prior to the Listing, the Group has entered into the following transactions with certain parties, which will be connected persons (as defined under the Listing Rules) of the Company upon the Listing. All of these transactions will continue after the listing of Shares on the Main Board and constitute continuing connected transactions (as defined under the Listing Rules) of the Company.

Continuing connected transactions exempt from announcement and independent Shareholders' approval requirements

Relationship between the Group and each of the relevant connected persons

Alther Limited ("**Alther**") is a company incorporated in Hong Kong on 25 March 1988. As at the Latest Practicable Date, its entire issued share capital was owned approximately as to 99.98% by Mr. Chu, 0.01% by Mrs. Chu, and 0.01% by Ms. Wong Yun Chun, mother of Mr. Chu.

Rizhao Artwell International Hotel Co. Limited ("**Rizhao Hotel**") is a wholly foreign owned enterprise established in the PRC on 22 August 2002. As at the Latest Practicable Date, its entire registered capital was wholly owned by Artwellgroup (Hotel) Holdings Company Limited (formerly known as Oriental Pioneer Limited), which was in turn wholly owned by Mr. Chu.

連雲港雅發實業有限公司 (Lianyungang Yafa Enterprise Co. Limited) ("**Yafa Enterprise**") is a wholly foreign owned enterprise established in the PRC on 12 March 2003. As at the Latest Practicable Date, its entire registered capital was owned by Artwell Investment Holding Limited, which is in turn wholly owned by Exquisite Gold. Exquisite Gold is wholly owned by Mr. Chu.

A Luck Limited (formerly known as A-lush Limited) ("**A-luck**") is a company incorporated in Hong Kong on 27 September 1985. As at the Latest Practicable Date, its issued share capital is owned approximately as to 99.997% by Mr. Chu and 0.003% by Mrs. Chu and Mr. Chu is also a director of A-luck.

BUSINESS

As Mr. Chu, the Chairman, an executive Director, director of various subsidiaries of the Company and the controlling shareholder of the Company, beneficially owns over 30% interest in each of Alther, Rizhao Hotel, Yafa Enterprise and A-luck, each of Mr. Chu, Alther, Rizhao Hotel, Yafa Enterprise and A-luck is a connected person of the Company under the Listing Rules.

Under the Listing Rules, for so long as each of Mr. Chu, Alther, Rizhao Hotel, Yafa Enterprise and A-luck remains a connected person of the Company, the transactions described below will constitute connected transactions upon Listing.

Leases by the Group from connected persons

(a) Lease from Alther in relation to an office in Hong Kong

On 15 May 2008, the Group and Alther entered into a lease agreement (the "**Hong Kong Office Lease Agreement**"), pursuant to which Alther (as landlord) agreed to lease a property located at Unit 612, 6th Floor, Houston Centre, 63 Mody Road, Tsimshatsui East, Kowloon, Hong Kong with a total gross floor area of approximately 120 m² to the Group (as tenant), for business use for a period of two years commencing from 1 April 2008 and expiring on 31 March 2010, at a total annual rental of HK\$387,900. The Group had occupied the above property during the Track Record Period at nil consideration. Prior to the listing of the Shares on the Main Board, the Directors consider that it would be reasonable and prudent to enter into an agreement between the Group and Alther in order to fairly reflect the Group's operating performance.

(b) Lease from Rizhao Hotel in relation to an office in Rizhao, the PRC

On 28 March 2008, Rizhao Yushun and Rizhao Hotel entered into a lease agreement (as supplemented by an agreement dated 29 March 2008) (the "**Rizhao Office Lease Agreement**"), pursuant to which Rizhao Hotel (as landlord) agreed to lease a property located at Eastern portion of 4th Floor, Rizhao Hotel, No. 96 Xing Hai Road, Rizhao City, Shangdong Province, the PRC with a total gross floor area of approximately 56 m² to the Group (as tenant) for office and operational uses for a period of three years commencing from 1 April 2008 and expiring on 31 March 2011, at an annual rental of RMB120,000 (equivalent to approximately HK\$136,300).

(c) Lease from Yafa Enterprise in relation to an office in Lianyungang, the PRC

On 28 March 2008, the Group and Yafa Enterprise entered into a lease agreement (the "**Lianyungang Office Lease Agreement**"), pursuant to which Yafa Enterprise (as landlord) agreed to lease a property located at Unit 301, West Wing, No. 5 Xixia Road (also known Lu Gou Hai Tang Road), Lianyungang District, Lianyungang City, Jiangsu Province, the PRC with a total gross floor area of approximately 57 m² to the Group (as tenant) for office and operational uses for a period of three years commencing from 1 April 2008 and expiring on 31 March 2011 at an annual rental of RMB34,200 (equivalent to approximately HK\$38,900).

BUSINESS

(d) Lease from Mr. Chu in relation to a staff quarter in Qingdao, the PRC

On 28 March 2008, Rizhao Yushun and Mr. Chu entered into a lease agreement (as supplemented by an agreement dated 29 March 2008) (the "**Qingdao Staff Quarters Lease Agreement**"), pursuant to which Mr. Chu (as landlord) agreed to lease a property located at Unit 3203, 32nd Floor, Block 1, No. 37 Donghai Xi Road, Shinan District, Qingdao City, Shangdong Province, the PRC with a total gross floor area of approximately 114.04 m² to Rizhao Yushun (as tenant) as staff quarters for a period of three years commencing from 1 April 2008 and expiring on 31 March 2011, at an annual rental of RMB120,000 (equivalent to approximately HK\$136,300).

The annual rent under each of the Hong Kong Office Lease Agreement, the Rizhao Office Lease Agreement, the Lianyungang Office Lease Agreement and the Qingdao Staff Quarters Lease Agreement (collectively, the "**Lease Agreements**") was determined on an arm's length basis between the Group and the relevant connected persons. The Company's independent valuer, Asset Appraisal Limited, has confirmed that the current rental payable by the Group pursuant to each of the Lease Agreements is fair and reasonable.

The Directors (including the independent non-executive Directors) have confirmed that the transactions under each of the Lease Agreements has been and will be conducted in the ordinary and usual course of business of the Group on normal commercial terms. As such the Directors considered that the entering into the Lease Agreements by the Group are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the aggregate annual rental expenses under each of the Lease Agreements (a) to (d) above payable by the Group to the relevant connected persons for each of the two years ending 31 March 2010 will be approximately HK\$[699,400] and the aggregate annual rental expenses under each of the Lease Agreements (b) to (d) above payable by the Group to the relevant connected persons for the year ending 31 March 2011 will be approximately HK\$[311,500], which are less than HK\$1,000,000, and each of the percentage ratios mentioned in Rule 14.07 of the Listing Rules is less than 2.5%, the above transactions fall below the de minimis threshold of HK\$1,000,000 under Rule 14A.33(3) of the Listing Rules and thus are not subject to any reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Lease by the Group to a connected person

On 28 June 2007, Artwell Enterprises, which at the time held the factory complex and the land underneath on trust for and on behalf of Mr. Chu, and A-luck entered into a lease agreement (the "**Shenzhen Factory Lease Agreement**") which was supplemented by an agreement dated 28 March 2008, pursuant to which Artwell Enterprises (as landlord) agreed to lease a factory complex located at No. 22 Dongshen Road, E-gong Ling, Pinghu Town, Longgang District, Shenzhen City, Guangdong Province, the PRC with a total gross floor area of approximately 1,348.8 m² to A-luck (as tenant), for a period of three years commencing from 1 July 2007 and expiring on 30 June 2010, at a total annual rental of

BUSINESS

RMB198,540 (equivalent to approximately HK\$[225,600]). A-luck had occupied the above property during the Track Record Period, starting from 1 July 2007, at monthly rent of RMB16,545 (equivalent to approximately HK\$[18,800]). However, as the above property was held by Artwell Enterprises as a nominee of Mr. Chu from 3 March 1995 to 31 March 2008 pursuant to a nominee agreement entered into between Artwell Enterprises and Mr. Chu on 3 March 1995, the rental income so received belonged to Mr. Chu during the three financial years ended 31 March 2008 and therefore, no rental income was recorded by the Group before 31 March 2008. The rental income was only recorded by the Group after 31 March 2008 after Artwell Enterprises and Mr. Chu had signed an agreement cancelling the above-mentioned nominee agreement, pursuant to which Artwell Enterprises acquired the above property at a consideration of RMB9.2 million (equivalent to approximately HK\$10.5 million).

The annual rent under the Shenzhen Factory Lease Agreement was determined on an arm's length basis between the Group and A-luck. The Company's independent valuer, Asset Appraisal Limited, has confirmed that the current rental payable by the Group pursuant to the Shenzhen Factory Lease Agreement is fair and reasonable.

The Directors (including the independent non-executive Directors) have confirmed that the Shenzhen Factory Lease Agreement has been and will be conducted in the ordinary and usual course of business of the Group on normal commercial terms. As such the Directors considered that the entering into the Shenzhen Factory Lease Agreement by the Group are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the aggregate annual rental income under the Shenzhen Factory Lease Agreement receivable by the Group from A-luck for each of the three years ending 31 March 2011 will be RMB198,540 (equivalent to approximately HK\$225,600), which is less than HK\$1,000,000, and the percentage ratios mentioned in Rule 14.07 of the Listing Rules is less than 2.5%, the rental receivable under Shenzhen Factory Lease Agreement fall below the de minimis threshold of HK\$1,000,000 under Rule 14A.33(3) of the Listing Rules and thus are not subject to any reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Non-exempt Continuing Connected Transactions

Continuing connected transactions

According to the Company's Thai legal advisers, under the Foreign Business Act, a Thai national company, that is, more than 50% of issued shares of the company are held by Thai national, is entitled to engage in all kind of businesses in Thailand, including businesses which foreign companies may be prohibited or restricted from engaging in for the purposes of the Foreign Business Act.

BUSINESS

To allow the Group to have flexibility to engage in (though the Group presently does not have any plan or intention to do so) such in Thailand, the Directors decide to maintain Global Property as a Thai national company such that the Group in aggregate legally and beneficially owns as to 49% equity interests in Global Property (through Art Rich owns as to 48.95% equity interests in Global Property and each of Artwell Tapioca, All High, Alternative View, Artwell Enterprises and Art Ocean owns as to 0.01% equity interests in Global Property) while Mr. Aja acts as registered holder of 51% equity interests in Global Property and the beneficial interests in and effective control of the 51% equity interests in Global Property by Art Rich was structured under the Aja-Art Rich Arrangements, the particulars of which are as follows:

(1) Loan agreement

On 26 March 2008, Art Rich as a lender and Mr. Aja as a borrower entered into a loan agreement, pursuant to which Art Rich had lent THB127,500 (equivalent to approximately HK\$28,600), being the nominal value of the capital of the 51% equity interests in Global Property called and paid up (i.e., 25% of such 51% equity interests are called and paid up), to Mr. Aja for capital injection by Mr. Aja to Global Property.

(2) Share pledge agreement

As security to the repayment of his loans owed to Art Rich, Mr. Aja had also entered into a share pledge agreement with Art Rich on 26 March 2008, pursuant to which Mr. Aja agreed to pledge his shares in Global Property, representing 51% equity interests in Global Property, in favour of Art Rich, by virtue of which, Art Rich could enforce the share pledge in an event of default of the loan repayment.

(3) Letter of undertaking

On 26 March 2008, Mr. Aja had made a letter of undertaking whereby Mr. Aja had undertaken, among other things, to assign and direct all dividends and special distribution paid and payable by Global Property in relation to his shares in Global Property, and all distribution of assets made or to be made by Global Property in relation to his shares in Global Property solely to Art Rich.

(4) Proxy

On 26 March 2008, Mr. Aja also appointed Art Rich as its proxy to receive notices of shareholders' meeting and to vote in all shareholders' meetings of Global Property for any proposed resolution.

In the opinion of the Company's Thai legal advisers, such arrangement is lawful, valid and legally effected, binding and enforceable under the laws of Thailand. Therefore, by virtue of the Group's legal and beneficial ownership of 49% equity interests in Global Property and its beneficial interest in and effective control of the 51% equity interests through the Aja-Art Rich Arrangements, Art Rich alone can act solely to transact any business of Global Property by calling for any

BUSINESS

shareholders' meeting, directors' meeting and convene such meeting and adopt any resolution Art Rich may desire, and such resolution is valid and lawful provided that the resolution is not against the laws of Thailand. The Aja-Art Rich Arrangements in effect enables the Group to be beneficially interested in 100% equity interest in Global Property since 26 March 2008.

Relationship between the Group and the relevant connected person

Mr. Aja is the registered holder of 51% equity interests of Global Property and therefore is a substantial shareholder of a subsidiary of the Company. As such, he is a connected person of the Company under the Listing Rules. Also, Mr. Aja had been a director of Global Property until 25 June 2008 and therefore is regarded as a connected person of the Company by virtue of Rule 14A.11(2) of the Listing Rules.

Accordingly, transactions under the Aja-Art Rich Arrangements would technically be considered as continuing connected transactions and, unless an exemption is available under the Listing Rules, must comply with the applicable announcement, reporting and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Directors, including the independent non-executive Directors, are of the view that the Aja-Art Rich Arrangements are fundamental to the Group's legal structure and business operations and are on terms that are fair and reasonable so far as the Group is concerned and in the interests of the Shareholders as a whole. The Directors also believe that the unique nature of the structure whereby the financial results of Global Property are consolidated into the Group's financial statements as if it were the subsidiary of the Company, and the economic benefit of its business flows to the Group, places the Group in a unique position in relation to the connected transaction rules. Accordingly, notwithstanding that the Aja-Art Rich Arrangements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, the Directors consider that it would not be appropriate for the Aja-Art Rich Arrangements to be subject to, amongst other things, the periodic approval of the independent Shareholders.

Waiver Sought

In view of the above reasons, the Group has therefore applied to the Stock Exchange for, [and the Stock Exchange has agreed to grant,] a specific waiver from strict compliance with the applicable announcement, reporting and independent shareholders' approval requirements, of Chapter 14A of the Listing Rules in relation to the transactions contemplated under the Aja-Art Rich Arrangements for so long as Shares are listed on the Stock Exchange, for the reasons and on the conditions set out below:

- (1) No change without independent Shareholders' approval:

Save as disclosed under the heading "Change Global Property into a foreign company", no changes to the Aja-Art Rich Arrangements will be made without the approval of independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further periodic or other approvals will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed.

BUSINESS

(2) Economic benefits flexibility

The Aja-Art Rich Arrangements enable the Group to receive the economic benefits derived from Global Property through assignment and direction by Mr. Aja of all dividends and special distribution paid and payable by Global Property in relation to his shares in Global Property, and all distribution of assets made or to be made by Global Property in relation to his shares in Global Property solely to Art Rich. In order to enable the Group to receive all of the economic benefits derived from Global Property, there will be no monetary cap on any of the agreements under the Aja-Art Rich Arrangements save that maximum monetary cap of all the loan granted to Mr. Aja under the Aja-Art Rich Arrangements will be limited to THB510,000 (equivalent to approximately HK\$114,200), being the total amount of nominal value of the 51% equity interests in Global Property.

(3) Cloning

On the basis that the Aja-Art Rich Arrangements provide an acceptable framework for the relationship between the Company and subsidiaries, on one hand, and Global Property, on the other hand, that framework may be [renewed and/or] "cloned" upon [the expiring of the existing arrangement or] in relation to any existing or new company that the Company might wish to establish, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Aja-Art Rich Arrangements that protect the Shareholders.

(4) Changing Global Property into a foreign company

In the event that the existing legal restrictions prohibiting or restricting a foreign company under the Foreign Business Act and/or the Land Code to engage in certain relevant businesses (such as acquisition of land or land trading) in Thailand are abolished or relaxed, the Company may wish to exercise the right to acquire the 51% equity interests in Global Property under the Aja-Art Rich Arrangements by demanding the repayment of the loan and demanding and effecting the transfer of the shares pledged by Mr. Aja to Art Rich under the share pledge agreement to Art Rich or its designated person at a consideration equal to the loan amount and the consideration will be offset by the amount equal to the entire amount of the loan. This may require the Aja-Art Rich Arrangements to be terminated. The Company shall be able to carry out the aforesaid reorganisation without Shareholders' approval.

(5) Transaction between Global Property and other members of the Group

In addition to the Aja-Art Rich Arrangements, there may be other contracts between the Company and wholly-owned subsidiaries, on one hand, and Global Property on the other. Given that the results of Global Property are consolidated into the Company's accounts, and given the relationship between the various companies within the Group (including Global Property) created by the Aja-Art Rich Arrangements, transactions between the Company and its wholly-owned subsidiaries, on one hand, and Global Property, on the other, should be exempted from the "continuing connected transactions" provisions of the Listing Rules.

BUSINESS

Conditions

Certain conditions have been imposed by the Stock Exchange in respect of the above specific waiver as follows:

- (1) the Company will disclose whether the Aja-Art Rich Arrangements in place during each financial period in the annual report and accounts in accordance with the relevant provisions of Rule 14A.45 of the Listing Rules;
- (2) the independent non-executive Directors will review the Aja-Art Rich Arrangements annually and confirm in the annual report and accounts for the relevant year that the Aja-Art Rich Arrangements remain unchanged and consistent with existing disclosure and that no dividends or other distributions have been made by Global Property to Mr. Aja and any new structural contractual arrangements entered into and/or renew and/or "cloned" and any other contracts to be entered into from time to time between the Group and Global Property (the "**Other Contracts**") during the relevant financial period are fair and reasonable so far as the Group is concerned and in the interests of the Shareholders as a whole;
- (3) the Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Aja-Art Rich Arrangements and the Other Contracts, and to provide a confirmation to the Board, with a copy to the Stock Exchange, at least 10 business days before the bulk-printing of the Company's annual report, confirming that the economic interest generated by Global Property flows to the Group is in accordance with the criteria and principles set out under the Aja-Art Rich Arrangements and the Other Contracts and they are properly approved by the directors of Global Property and that no dividends or other distributions have been made by Global Property (save as to Art Rich, Artwell Tapioca, All High, Alternative View, Artwell Enterprises and Art Ocean);
- (4) for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each of Global Property and any other newly established operating company, will be treated as a wholly-owned subsidiary of the Company, but at the same time, the directors, chief executive and substantial shareholders of Global Property and any other newly established operating company, and their respective associates will be treated as "connected persons" of the Group and transactions (excluding the Aja-Art Rich Arrangements) between these connected persons and the Group (including Global Property and any other newly established operating company), shall comply with Chapter 14A of the Listing Rules; and
- (5) Global Property will provide to the Company an undertaking that, for so long as the Shares are listed on the Stock Exchange, Global Property will allow the Company and its auditors to have full access to relevant records of Global Property for the purpose of the Company's auditors' review of the transactions referred to above.

The Sponsor concurs with the Directors' view that the Aja-Art Rich Arrangements taken as a whole is fair and reasonable and in the interest of the Shareholders as a whole.

BUSINESS

PROCESSING NOMINEE ARRANGEMENT

The processing contract for processing and manufacturing of plastic and metal products, (the "**Processing Contract**") was entered into between Artwell Enterprises and 寶安縣平湖鎮鵝公嶺經濟發展公司 (Baoan County Pinghu Town E-gong Ling Economic Development Limited) ("**EEDL**") and 深圳市寶安縣對外貿易公司 (Shenzhen Baoan Foreign Trade Limited) on 22 November 1991 for engaging the processing factory for processing and manufacturing of plastic and metal products. Pursuant to the relevant documents (the "**Processing Nominee Arrangement**") executed between Artwell Enterprises and Mr. Chu on 22 November 1991, Artwell Enterprises had entered into the Processing Contract as a nominee of Mr. Chu and had continued to hold the rights and obligations under the Processing Contract as nominee of Mr. Chu since then until 31 March 2008, when Mr. Chu assigned his interests and obligations in the Processing Contract to an Independent Third Party (the "**New Owner**") and Artwell Enterprises held the rights and obligations under the Processing Contract as nominee of the New Owner. Pursuant to the Processing Nominee Arrangement, among other things, (i) Artwell Enterprises should enter into the Processing Contract, provide machineries for setting up the processing factory, holding the processing license attaching to the processing factory and through the processing factory, conduct processing business on behalf of Mr. Chu, (ii) Mr. Chu should pay all the cost and expenses such as, machines, equipments, raw materials, components and processing fees in relation to the setting up and operating the processing factory in accordance with the Processing Contract, and (iii) Artwell Enterprises should ensure that all the economic interests generated from the Processing Contract to flow to Mr. Chu. On 31 March 2008, Artwell Enterprises, Mr. Chu and the New Owner, an Independent Third Party, entered into an assignment, pursuant to which Mr. Chu assigned all his rights and liabilities under the Processing Contract to the New Owner at nil consideration. To the best knowledge of the Directors, after the assignment, no new processing order has been received. [Further, pursuant to an agreement made on 20 January 2009 between Artwell Enterprises and a company wholly-owned by the New Owner, at the instruction of the New Owner, the parties have agreed to transfer the rights and obligations of Artwell Enterprises under the Processing Contract and Processing Nominee Arrangement to the company wholly-owned by the New Owner. According to the New Owner, the relevant authority has approved the application of the transfer and in the process of completing the transfer registration process. As advised by the PRC legal advisers, it is expected that no difficulty would be encountered in completing the transfer registration process. Before the completion of the transfer registration process, Artwell Enterprises will still be holding the rights and obligations under the Processing Contract as nominee of the New Owner. As advised by the PRC legal advisers, the Processing Nominee Arrangement, the subsequent assignment and the transfer do not violate prohibitive provisions of the relevant laws and regulations in the PRC.] The Controlling Shareholders, Mr. Chu and AR Management undertake to fully indemnify the Group for any costs, losses or damages in relation to the above arrangement. Further details of the indemnity is set out in the paragraph headed "Other information" in Appendix V to the Document.

BUSINESS

DISCLOSURE UNDER RULES 13.13-19 OF THE LISTING RULES

Pursuant to Rule 13.13 to Rule 13.19 of the Listing Rules, a general disclosure obligation arises where the financial assistance to affiliated companies of an issuer and guarantees given for facilities granted to affiliated companies of an issuer exceeds 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

As disclosed in note 29 in the accountants' report, during the Track Record Period, certain of the Group's banking facilities amounting to HK\$[134] million were shared between the Group and Artwell Cotton, a related company of the Group controlled by a Director. These banking facilities were secured, inter alia, by certain properties and inventories of the Group, certain properties of a Director and related companies of the Group controlled by that Director, the Group's corporate guarantees, cross corporate guarantees given by Artwell Cotton, certain personal guarantees given by a Director and corporate guarantees given by certain related companies of the Group controlled by that Director. These banking facilities were not utilised by Artwell Cotton. Subsequent to 31 August 2008, the banking facilities have been modified to exclude Artwell Cotton as a borrower and the aforementioned pledges, corporate and personal guarantees and cross corporate guarantees given by or in favour of Artwell Cotton have been released.

Save as disclosed above and in note 31 in the accountants' report in Appendix I, there were no advances, no financial assistance, and no guarantees to affiliated companies of the Company as at 31 March 2006, 2007, 2008 and 31 August 2008 which would otherwise give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the Company been listed on the Stock Exchange as at the respective date.

NON-COMPETITION UNDERTAKING

Mr. Chu and AR Management, as covenantors (collectively, the "Covenantors"), have entered into a deed of non-competition in favour of the Company on [●] 2009 (the "Non-competition Deed"), pursuant to which each of the Covenantors has irrevocably and unconditionally undertaken to and covenanted with the Company (for itself and for the benefit of the members of the Group) that during the continuation of the Non-competition Deed that each of the Covenantors shall not, and shall procure each of his/its associates and/or companies controlled by he/it, whether on his/its own account or in conjunction with or on behalf of any person, firm or company and whether directly or indirectly, which carries on a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by the Group (including but not limited to the import and export, distribution and marketing of cassava and business ancillary to any of the foregoing in each case, to be more particularly described or contemplated herein) in Thailand, Hong Kong, the PRC, Macau, Cambodia and any other country or jurisdiction to which the Group markets, sells, distributes, supplies or otherwise provides such products and/or in which any member of the Group carries on business mentioned above from time to time (the "Restricted Business").

BUSINESS

The Directors have represented and warranted that none of them and, as far as they know, none of the Controlling Shareholders or his/its associates is currently interested, involved or engaging, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Business otherwise than through the Group.

Pursuant to the Non-competition Deed, each of the Covenantors has also undertaken that if each of the Covenantors and/or any of his/its associates is offered or becomes aware of any project or new business opportunity ("**New Business Opportunity**") that relates to the Restricted Business, whether directly or indirectly, he/it shall: (i) promptly [within seven days] notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use his/its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to him/it and/or his/its associates.

The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity. [If the Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within thirty (30) business days (the "**30-day Offering Period**") of receipt of notice from the Covenantors, the Covenantors and/or his/its associates shall be permitted to invest in or participate in the New Business Opportunity on his/its own accord.] With respect to the 30-day Offering Period, the Directors consider that such period is adequate for the Company to assess any New Business Opportunity as the Directors and senior management of the Group have been well experienced in the business of the Company. In order to ensure the Group have adequate time to assess some complicated business opportunities, the Covenantors have agreed to extend the offering period from 30 business days to a maximum of [60] business days should the Group require so by giving written notice within the 30-day Offering Period to the Covenantors.

In addition, upon Listing each of the Covenantors has also undertaken:

- (i) in favour of the Company to provide the Company and the Directors from time to time (including the independent non-executive Directors) with all information necessary, including but not limited to monthly sales records (such as purchase orders placed by customers, the corresponding invoices and any other relevant documents considered necessary by the independent non-executive Directors), for the annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-competition Deed and the enforcement of the non-competition undertakings in the Non-competition Deed;
- (ii) provide to the Company, (if necessary) after the end of each financial year of the Company, a declaration made by each of the Covenantors which shall state whether or not the Covenantors have during that financial year complied with the terms of the Non-competition Deed, and if not, particulars of any

BUSINESS

non-compliance, which declaration (or any part thereof) may be reproduced, incorporated, extracted and/or referred to in the annual report of the Company for the relevant financial year such annual declaration shall be consistent with the principles of making voluntary disclosures in the corporate governance report; and

- (iii) to the Group to allow the Directors, their respective representatives and the auditors to have sufficient access to the records of the Covenantor and his/its associates to ensure their compliance with the terms and conditions under the Non-competition Deed.

Further, each of the Covenantors has undertaken that during the period in which he/it and/or his/its associates, individually or taken as a whole, remains as a Controlling Shareholder:

- (a) he/it will not invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by the Group from time to time;
- (b) he/it will not solicit any existing or then existing employee of the Group for employment by he/it or his/its associates (excluding the Group);
- (c) he/it will not without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to its knowledge in his/its capacity as the Controlling Shareholder for any purposes; and
- (d) he/it will procure his/its associates (excluding the Group) not to invest or participate in any project or business opportunity mentioned above.

The Non-competition Deed will take effect upon the listing of the Shares on the Main Board and shall expire on the earlier of:

- (a) the day on which the Shares cease to be listed on the Main Board or other recognized stock exchange; or
- (b) the day on which the Covenantors and his/its associates, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of the Company directly or indirectly or cease to be deemed as Controlling Shareholder and do not have power to control the Board or there is at least one other Shareholder other than the Covenantors and his/its respective associates holding more Shares than the Covenantors and his/its respective associates taken together.

BUSINESS

In order to strengthen the corporate governance in respect of the existing and potential conflict of interests between the Group and the Covenantors, upon Listing:

- (i) the Company shall disclose in its annual reports the compliance and enforcement of the undertakings by the Covenantors in respect of the Non-competition Deed and the appropriate action to be taken by the Company;
- (ii) the Company shall disclose decision on matters reviewed by the independent non-executive Directors in relation to the compliance and enforcement of the arrangement of the New Business Opportunity in its annual reports;
- (iii) the Board will ensure reporting any event relating to potential conflict of interests to the independent non-executive Directors as soon as practicably when it realizes or suspects any event relating to potential conflict of interests may occur during the daily operations;
- (iv) following the reporting of any event relating to potential conflict of interest, the Board will hold a management meeting to review and evaluate the implications and risk exposures of such event and the compliance of the Listing Rules in order to monitor any irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions; and
- (v) in the event that there is any potential conflict of interest relating to the business of the Group between the Group and the Controlling Shareholders, the interested Directors, or as the case may be, the Controlling Shareholders would, according to the Articles or the Listing Rules, be required to declare his/its interest and, where required, abstain from participating in the relevant board meeting or general meeting and voting on the transaction and not count as quorum where required.