

## IMPORTANT NOTICE

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In the United Kingdom, this document is being distributed only to, and is directed only at, Qualified Investors: (a) who are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”); or (b) who are high net worth entities falling within Article 49 of the Order; or (c) other persons to whom it may otherwise lawfully be communicated, (any such person being referred to as a “relevant person”). Any investment activity to which this document relates is available only to: (i) in the United Kingdom, relevant persons; and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and, in either case, will be engaged in only with such persons.

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**Restrictions:** Neither this electronic transmission nor the attached document constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The securities have not been and will not be registered under the Securities Act, and the securities may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

This document does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

The attached document does not take into account the investment objectives, financial situation and particular needs of investors. It is important that you read the document before making any decision to invest in securities. In particular, it is important that you consider the risk factors that could affect the financial performance of the Company. You should carefully consider these factors in light of your particular investment needs, objectives and financial circumstances (including financial and taxation issues) and seek professional advice from an appropriate professional adviser.

No representation or warranty, expressed or implied, is made or given by or on behalf of JPMorgan Cazenove Limited, nor any person who controls it or any of its directors, officers, employees or agents or any affiliate of JPMorgan Cazenove Limited as to the accuracy, completeness or fairness of the information or opinions contained in this document and such persons do not accept responsibility or liability for any such information or opinions.

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 (as amended) (“FSMA”) who specialises in advising on the acquisition of shares and other securities.**

The existing Ordinary Shares in the Company have been admitted to trading on AIM. Application will be made for all of the New Ordinary Shares to be issued pursuant to the Placing and the Conversion Shares to be issued pursuant to the Conversion, to be admitted to trading on AIM. It is expected that Admission will become effective and dealings for normal settlement in the Placing Shares will commence on 3 April 2007.

**The offer of Ordinary Shares under the Placing will not be made generally available to Shareholders and will be open only to “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive and to “qualified institutional buyers” (or “QIBs”) as defined in Rule 144A (“Rule 144A”) under the US Securities Act of 1933, as amended (the “Securities Act”). This document is not a prospectus drawn up pursuant to section 84(2) of the FSMA nor does it constitute an admission document drawn up under the AIM Rules. Neither the UK Listing Authority nor London Stock Exchange has examined or approved the contents of this document.**

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The attention of prospective investors is drawn to the risk factors set out in Part II of this document.

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# Asian Citrus Holdings Limited

*(incorporated in Bermuda with registered number 33747)*

## Placing of Ordinary Shares raising up to £30 million

### JPMorgan Cazenove Limited

*Bookrunner, Nominated Adviser and Broker*

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JPMorgan Cazenove Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for the Company and the Selling Shareholders and no-one else in connection with the Placing and Admission and will not regard any other person as its client or be responsible to any other person for providing the protections afforded to clients of JPMorgan Cazenove Limited or for providing advice in relation to the transactions and arrangements detailed in this document.

The New Ordinary Shares to be issued pursuant to the Placing and the Conversion Shares to be issued pursuant to the Conversion will, on Admission, rank *pari passu* in all respects with all existing Ordinary Shares, including for all dividends declared, made or paid on the Ordinary Shares by reference to any record date following Admission.

The Placing Shares have not been and will not be registered with the US Securities and Exchange Commission (the “SEC”) under the Securities Act, or with any state securities commission under any state securities laws in the United States of America (the “United States” or “US”). Subject to certain exceptions, this document may not be distributed in the United States, and the Placing Shares may not be offered or sold within the United States. The Placing Shares are being offered and sold outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”). JPMorgan Cazenove may arrange for the offer and sale of the Placing Shares in the United States to the extent the prospective investors are reasonably believed to be qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Prospective investors are hereby notified that sellers of the Placing Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

For a description of these and certain further restrictions on offers, sales and transfers of the Placing Shares and the distribution of this document, see *Terms of the Placing – Securities Laws* in Part V of this document. The Placing Shares are not transferable except in compliance with the restrictions described in such section.

The Placing Shares have not been and will not be approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed on or endorsed the merits of the Placing or the accuracy or adequacy of the information in this document. Any representation to the contrary is a criminal offence in the United States.

The distribution of this document may be restricted by law. No action has been taken or will be taken by the Company to permit the possession or distribution of this document in the United States, Australia, Canada or Japan or in any jurisdiction where action for that purpose may be required. Accordingly, neither this document nor any advertisement or any other material relating to it may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions.

No person has been authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company or JPMorgan Cazenove. Without prejudice to the Company's obligations under the AIM Rules, neither the delivery of this document nor any subscription made under this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information contained herein is correct as at any time subsequent to its date.

Prospective investors must not treat the contents of this document as advice relating to legal, regulatory, taxation, investment or any other matters. Prospective investors must inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, redemption or other disposal of Placing Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer, redemption or other disposal of Placing Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer, redemption or other disposal of Placing Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, regulatory, tax, investment or any other related matters concerning the Company and an investment therein.

No undertaking, representation or warranty or other assurance, express or implied, is made or given by or on behalf of each of the Company, JPMorgan Cazenove or any of its respective parent or subsidiary undertakings or the subsidiary undertakings of any such parent undertakings or any of such person's directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information, opinions or beliefs contained in this document and no responsibility or liability is accepted for any such information or opinions. Nothing in this paragraph shall exclude, however, liability for any representation or warranty made fraudulently.

Apart from the responsibilities and liabilities, if any, which may be imposed on JPMorgan Cazenove by the FSMA or the regulatory regime established thereunder, JPMorgan Cazenove accepts no responsibility whatsoever for the contents of this document or for any other statement made or purported to be made by it or on its behalf in connection with the Company or the Placing Shares. JPMorgan Cazenove accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this document or any such statement.

#### **Notice in connection with Australia, Canada and Japan**

This document is not, save in certain limited circumstances pursuant to applicable private placement exemptions, for distribution in or into Australia, Canada or Japan. The Placing Shares have not been and will not be registered or qualified for distribution under the applicable securities laws of Australia, Canada or Japan. The Placing Shares may not be offered for sale or subscription or sold or subscribed directly or indirectly in Australia, Canada or Japan or to, or for the account or benefit of, any national, resident or citizen of Australia, Canada or Japan.

#### **Notice to New Hampshire residents**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE

FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

#### **Notice to prospective investors in the Placing in the United Kingdom**

The Placing Shares must not and will not be offered to the public in the United Kingdom (within the meaning of section 102B of the FSMA) save in circumstances where it is lawful to do so without an approved prospectus (within the meaning of section 85 of the FSMA) being made available to the public before the offer is made. The offer under the Placing is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (“qualified investors”) that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”); (ii) high net worth entities or other persons falling within Article 49(2)(a) to (d) of the Order; or (iii) other persons to whom it may lawfully be communicated.

#### **Notice to prospective investors in the Placing in the European Economic Area**

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a “relevant member state”), an offer to the public of the Placing Shares may not be made in that relevant member state, except that an offer to the public in that relevant member state of any Placing Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that relevant member state:

- to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43 million and (3) an annual net turnover of more than €50 million, as shown in its last annual or consolidated accounts; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each subscriber for or purchaser of Placing Shares described in this document located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive. For the purposes of this provision, the expression an “offer to the public” in relation to any Placing Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Placing and the Placing Shares to be offered so as to enable an investor in the Placing to decide to purchase or subscribe for the Placing Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

In the case of any Placing Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, warranted to and agreed with JPMorgan Cazenove and the Company that (i) the Placing Shares acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any relevant member state other than qualified investors, or in circumstances in which the prior consent of JPMorgan Cazenove has been obtained to each such proposed offer or resale, or (ii) where Placing Shares have been acquired by it or on behalf of persons in any relevant member state other than qualified investors, the offer of those Placing Shares to it is not treated under the Prospectus Directive as having been made to such persons. The Company and JPMorgan Cazenove and each of their respective affiliates, and others will rely upon the truth and accuracy of the foregoing representation, warranty and agreement. Notwithstanding the

above, a person who is not a qualified investor and who has notified JPMorgan Cazenove of such fact in writing may, with the consent of JPMorgan Cazenove, be permitted to subscribe for or purchase Placing Shares.

#### **Notice to prospective investors in the Placing in Hong Kong**

The contents of this document have not been reviewed or authorised by any regulatory authority in Hong Kong. Persons who are invited to purchase or subscribe for the Placing Shares or to whom this document is sent are advised to exercise caution in relation to the contents of this document. Persons who are in any doubt about any of the contents of this document should obtain independent professional advice. No Placing Shares shall be offered or sold in Hong Kong, by means of any document other than (i) to “professional investors” as defined in the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “SFO”) and any rules made thereunder or (ii) in circumstances which do not result in this document being a “prospectus” as defined in the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (the “CO”) or which do not constitute an offer to the public within the meaning of the CO). No advertisement, invitation or document relating to the Placing Shares, whether in Hong Kong or elsewhere, is being issued, distributed or circulated which is directed at, or the contents of which are likely to be accessed or read by the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Placing Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder. This document is not for use in Hong Kong by any other person other than those to whom it is addressed. Recipients of this document shall not publish or reproduce, in whole or in part, nor disclose the contents of this document to any other person. Interests in the Placing Shares may not be offered for sale to the public in Hong Kong.

#### **Notice to prospective investors in the Placing in Singapore**

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Placing Shares may not be circulated or distributed, nor may Placing Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Placing Shares are subscribed or purchased under Section 275 by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Placing Shares pursuant to an offer made under Section 275 except:

- (I) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (II) where no consideration is or will be given for the transfer; or
- (III) where the transfer is by operation of law.

### **Available information**

The Company has agreed that, for so long as any Placing Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act it will, during any period in which it is neither subject to Section 13 or 15(d) under the US Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such Placing Shares or to any prospective purchaser of such Placing Shares designated by such holder or beneficial owner, on the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

### **Industry, market and other data**

Information regarding markets, market size, market share, market position, growth rates and other industry data pertaining to the Company’s business contained in this document consists of estimates based on data and reports compiled by professional organisations and analysts, on data from other external sources and on the Company’s knowledge of the Chinese orange market. Information regarding the macroeconomic environment in China, business in China and the demographics of China have been compiled from publicly available sources. In many cases, there is little readily available external information (whether from trade associations, government bodies or other organisations) to validate market-related analyses and estimates, requiring the Company to rely at times on internally developed estimates. The Company takes responsibility for compiling, extracting and reproducing market or other industry data from external sources, including third parties or industry or general publications, but neither the Company nor JPMorgan Cazenove has independently verified that data. The Company gives no assurance as to the accuracy and completeness of, and takes no further responsibility for, such data. Similarly, while the Company believes its internal estimates to be reasonable, they have not been verified by any independent sources and the Company cannot give any assurance as to their accuracy.

Distances and areas stated in this document are approximate and may have been rounded.

### **References to defined terms**

Certain terms used in this document, including capitalised terms and certain technical and other terms are explained in the section entitled “Definitions and Glossary”.

All references to “RMB” or “Renminbi” are to the lawful currency of China.

All references to “£”, “GBP” or “pounds sterling” are to the lawful currency of the United Kingdom.

All references to “\$”, “US\$” or “US dollars” are to the lawful currency of the United States.

All references to “€” or “Euro” are to the single currency of any member state of the European Community that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union of the European Monetary Union.

### **Forward-looking statements**

This document contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Company and certain of its plans and objectives. In particular, among other statements, certain statements in Part IV of this document about expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through use of words or phrases such as “will likely result”, “are expected to”, “will continue”, “believe”, “is anticipated”, “may”, “estimated”, “intends”, “plans”, “seek”, “projection” and “outlook” and similar expressions. Forward-looking statements are based on the respective managements’ current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed.

Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. Among the key factors that have a direct bearing on the results of operations are:

- general, local and global economic conditions;
- fluctuations in interest rates;

- fluctuations in currency exchange rates;
- changes in laws and regulations (including accounting standards);
- general competitive factors; and
- the risk factors set out in Part II of this document.

These forward-looking statements speak only as of the date of this document. The Company and the Directors expressly disclaim any obligation or undertaking to release publicly any updating or revisions to any forward-looking statements, whether as a result of new information, future events or otherwise, save as required by applicable law or regulation. In light of these risks, uncertainties and assumptions, the forward-looking statements made in this document might not be accurate.

#### **Certain references**

Where reference is made to a particular year without a stated period end, this refers to a calendar year.

Statements relating to the market position of companies in individual markets and the rate of growth of those markets, are, unless otherwise stated, based on management estimates.

#### **Currency**

For the convenience of the reader, the Bloomberg rate as at 27 March 2007 for each of the following currencies was:

£1 = RMB15.3685

£1 = HK\$15.2116

As at 31 December 2006, the Bloomberg rate for each of the same currencies was:

£1 = RMB15.2800

£1 = HK\$15.2223

#### **Incorporation by reference**

The financial statements of the Group included in the annual reports for the years ended 30 June 2005 and 2006, together with the audit reports thereon, and the unaudited interim report for the six-month period ended 31 December 2006 are incorporated by reference into this document.

#### **No incorporation of website information**

The contents of the Company's website do not form part of this document, and investors should not rely on them.

**Prospective investors should read the whole text of this document. Particular attention is drawn to the risk factors set out in Part II of this document.**

## CONTENTS

	<i>Page</i>
<b>Expected Timetable of Principal Events</b> .....	8
<b>Placing Statistics</b> .....	8
<b>Directors, Secretaries and Advisers</b> .....	9
<b>PART I Summary</b> .....	11
<b>PART II Risk Factors</b> .....	14
<b>PART III Summary of the Placing and Rationale</b> .....	26
<b>PART IV Information on the Group</b> .....	28
<b>PART V Terms of the Placing</b> .....	46
<b>PART VI (A) Selected Financial Information</b> .....	53
<b>(B) Operating and Financial Review</b> .....	56
<b>PART VII Additional Information</b> .....	69
<b>Definitions and Glossary</b> .....	116

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Expected date of pricing	29 March 2007 <sup>1</sup>
Admission becomes effective and dealings in the Placing Shares commence on AIM	3 April 2007
CREST accounts credited with Depositary Interests	3 April 2007
Despatch of definitive share certificates (where applicable) no later than	12 April 2007

## PLACING STATISTICS

Placing of New Ordinary Shares being issued by the Company	up to £20 million
Placing of Ordinary Shares being sold by the Selling Shareholders <sup>2</sup>	up to £10 million
Total Placing size	up to £30 million
Estimated net proceeds receivable by the Company after expenses	up to £18 million

1 JPMorgan Cazenove reserves the right to amend the timetable and change the date of pricing and any other date relating to the timing of the Placing set out in this document.

2 Or such other amount as may be agreed by the Company, the Selling Shareholders and JPMorgan Cazenove.

## DIRECTORS, SECRETARIES AND ADVISERS

<b>Directors</b>	Mr Tong Wang Chow, <i>Chairman</i> Mr Tong Hung Wai, Tommy, <i>Executive Director</i> Mr Cheung Wai Sun, <i>Executive Director</i> Mr Pang Yi, <i>Executive Director</i> Mr Sung Chi Keung, <i>Executive Director</i> Mr Ip Chi Ming, <i>Vice Chairman, Non-Executive Director</i> Mr Ma Chiu Cheung, Andrew, <i>Non-Executive Director</i> Mr Nicholas Smith, <i>Non-Executive Director</i> Dr Hon Lui Ming Wah, JP, <i>Non-Executive Director</i> Mr Yang Zhen Han, <i>Non-Executive Director</i> Hon Peregrine Moncreiffe, <i>Non-Executive Director</i>
<b>Registered Office</b>	Clarendon House 2 Church Street Hamilton Bermuda HM11 Tel: (+1441) 295 1422
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<b>Bookrunner, Nominated Adviser and Broker</b>	JPMorgan Cazenove Limited 20 Moorgate London EC2R 6DA United Kingdom
<b>UK and US legal advisers to the Company</b>	Lovells Atlantic House Holborn Viaduct London EC1A 2FG United Kingdom
<b>Bermuda legal advisers to the Company</b>	Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
<b>PRC legal advisers to the Company</b>	GFE Law Office 18/F Guangdong Holdings Tower 55 Dongfeng East Road Guangzhou PRC
<b>UK and US legal advisers to the Nominated Adviser and Broker</b>	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS United Kingdom
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**Channel Islands Registrars**

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**Depository Interest Registrars**

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## PART I

### Summary

*The information below is only a summary of more detailed information included in other sections of this document. The summary is not complete and does not contain all the information investors should consider before buying the Placing Shares. Investors should pay particular attention to Part II of this document (Risk Factors). Investors should read the whole of this document and not rely only upon this summary section.*

#### **The Placing**

The Company is proposing to raise up to £18 million net of expenses by way of a non pre-emptive placing to institutional and other qualified investors of New Ordinary Shares. In addition, the Selling Shareholders intend to dispose of Sale Shares to raise up to £10 million<sup>1</sup>. The Placing will, in aggregate, raise up to £30 million for the Company and the Selling Shareholders.

The issue of the New Ordinary Shares was approved by the Shareholders at an SGM held on 15 March 2007.

The Directors and the Selling Shareholders have agreed not to dispose of any interest in Ordinary Shares (or related financial instruments) for a period of six months following Admission, save in certain limited circumstances, without the prior written consent of JPMorgan Cazenove. The Company has agreed that it will not issue any Ordinary Shares, save in respect of Ordinary Shares issued pursuant to the exercise of options under the Share Option Plan, within the six-month period following Admission, without the prior consent of JPMorgan Cazenove.

#### **Information on the Group**

The Group is the single largest orange plantation owner and, the Directors believe, the single largest orange producer in the PRC. Asian Citrus currently owns and operates two orange plantations: the Hepu Plantation in Hepu County in the Guangxi Zhuang Autonomous Region, occupying approximately 30.9 sq. km, and the Xinfeng Plantation in Xinfeng County in Jiangxi province, occupying approximately 37.1 sq. km. The Hepu Plantation produced approximately 111,201 tonnes of oranges in the financial year ended 30 June 2006. The Directors expect the development of the Xinfeng Plantation to be completed in June 2007 and the plantation's first commercial harvest to take place in November 2007.

The Group cultivates and sells two types of oranges: winter (the varieties grown being Navel, Hamlin, Pineapple and Hong Jiang) and summer (principally Valencia). The Group sells its oranges to supermarket chains, corporate customers, wholesalers and sole proprietors in the PRC.

The Group's primary focus is selling quality oranges at an affordable price and strengthening its position as a leading orange producer in the PRC. The Group's strategy comprises:

- increasing volume through higher production levels and sourcing from third parties;
- building a national brand in the PRC;
- increasing profitability by growing sales to supermarkets; and
- expanding vertically by developing juicing and nursery businesses.

The Group is developing a wholesalers' market and an orange processing centre in the Xinfeng County Zhongduan Industrial Park near the Xinfeng Plantation. The project includes 650 commercial units, together with a car park, a block of serviced apartments and other services.

The Directors have agreed in principle to seek an additional listing of the Group on the Main Board of the Hong Kong Stock Exchange and are working with Cazenove Asia to assess the Group's eligibility for such a listing.

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<sup>1</sup> Or any such other amount as may be agreed by the Company, the Selling Shareholders and JPMorgan Cazenove.

### **Key strengths**

The Directors consider the key strengths of Asian Citrus to be the following:

- Well located plantations with high quality produce and inherent growth potential
- Strong expected growth in demand for the Group's oranges
- Significant barriers to entry
- Scale advantage over local competitors
- Pricing and cost advantage over imports
- Experienced management

### **Rationale for the Placing**

The Directors believe that the Group is poised for a phase of significant development and growth. This belief is underpinned by the increasing levels of orange consumption in the PRC from a relatively low historical base, growing demand for high quality oranges, the potential to improve the Group's average sale prices by increasing sales to supermarkets and the Group's strong competitive position against both overseas importers to the PRC and local producers.

The Directors believe that there are opportunities for the Group to build on its leading position and to further improve its growth prospects, namely:

- its proposed new plantation in Hunan province;
- its proposed entry into the juicing business; and
- investing in the existing business.

The Directors anticipate that the net proceeds will principally be used to finance, in part, the development of the Hunan Plantation, with the majority of the remaining net proceeds allocated for investment in the Group's proposed juicing business.

#### *Hunan Plantation*

To secure further supplies of oranges to help meet the expected increase in demand, the Group has identified Dao County in Hunan province as a suitable site for the development of a third orange plantation. On 12 March 2007, the Group signed a memorandum of understanding with the Hunan Government regarding the plans for a plantation, and has reached agreement in principle on the terms of a proposed investment agreement that would grant the Group, among other things, the right to negotiate agreements directly with the local landowners for the lease of approximately 35 sq. km of land.

Provided the Company is able to conclude a definitive investment agreement with the Hunan Government and lease agreements with the local landowners, the Directors expect the site to be fully planted, with approximately 2.4 million orange trees, by 2010. If the development of the Hunan Plantation proceeds on schedule, the Directors expect that the plantation's first commercial harvest will take place in 2012. The Directors currently estimate that the development of the Hunan Plantation is likely to cost approximately £35 million.

The Placing is not conditional on the signing of a definitive investment agreement with the Hunan Government or the signing of the requisite lease agreements. If the development of the Hunan Plantation or a similar investment opportunity is not found by the Board, Asian Citrus will consider methods of returning the funds raised by the Company in the Placing to its Shareholders.

#### *Juicing*

As a result of increasing prosperity and disposable income in the PRC, the Directors believe that demand for orange juice is growing, and they have been considering entering the juicing business to capitalise on this expected increase in demand. The strategy for these juicing operations is currently being finalised. The Group has already held discussions with potential strategic partners about juicing co-operative arrangements.

#### *Additional growth opportunities*

The Group's policy is to invest actively in internal growth through expanding its existing operations, building the Asian Citrus brand, establishing sales offices to target national supermarkets and securing sources of additional oranges to fulfil any demand for the Group's oranges in excess of the Group's own production capacity.

Finally, the Board is investigating other investment opportunities, including a number of small potential acquisitions, with a view to enhancing the Group's sourcing and distribution of oranges.

### Summary Financial Information

Presented below is a summary of the historical financial information for the Group prepared in accordance with International Financial Reporting Standards for the six-month periods ended 31 December 2006 and 2005 and adjusted to exclude the fair value gains and the corresponding tax effect.

	<i>Six months ended</i> <i>31 December</i>		<i>Six months ended</i> <i>31 December</i>		<i>Percentage</i> <i>change</i>
	<i>2006</i> <i>(RMBm)</i>	<i>2005</i> <i>(RMBm)</i>	<i>2006</i> <i>(£m)</i>	<i>2005</i> <i>(£m)</i>	
<b><i>Reported financial information</i></b>					
Revenue	147.1	105.6	9.6	6.9	+39.2
EBITDA <sup>2</sup>	141.8	71.2	9.3	4.7	+99.2
Net profit	110.3	49.5	7.2	3.2	+122.8
Basic earnings per share	RMB 1.77	RMB 0.84	11.6p	5.5p	+131.8
Diluted earnings per share	RMB 1.72	RMB 0.84	11.2p	5.5p	+104.8
<b><i>Adjusted to exclude fair value gain</i></b> <b><i>and corresponding tax effect<sup>3</sup></i></b>					
EBITDA <sup>2</sup>	58.6	51.2	3.8	3.3	+14.4
Net profit	39.6	32.5	2.6	2.1	+21.8
Basic earnings per share	RMB 0.64	RMB 0.55	4.2p	3.6p	+16.4
Diluted earnings per share	RMB 0.63	RMB 0.55	4.1p	3.6p	+14.5

### Risk factors

Prospective investors should review Part II of this document, entitled "Risk Factors", for a detailed discussion of the risks facing the Group.

<sup>2</sup> EBITDA represents earnings before interest, tax, depreciation and amortisation EBITDA in a non-GAAP measure. While EBITDA is frequently used in valuations of companies, EBITDA as used herein is not necessarily comparable to other companies in the industry due to potential inconsistencies in the method of calculation.

<sup>3</sup> Since fair value gains on biological assets are not recognised under PRC accounting rules, which are the statutory reporting standards for the Company's PRC-incorporated subsidiaries that own the biological assets, such gains are not distributable by the PRC subsidiaries as dividends.

## PART II

### Risk factors

*Before deciding whether to invest in Ordinary Shares, prospective investors should carefully consider the risk factors set out below, together with all of the other information contained in this document. If any of the following risks occurs, Asian Citrus' business, financial condition or results of operations could be materially adversely affected. In such circumstances, the trading price of the Ordinary Shares could decline, which may result in the loss of all or part of an investor's initial investment. The risks listed below do not necessarily include all of those associated with an investment in Asian Citrus. There may be additional risks that the Company does not currently consider to be material or of which it is not aware which may also have an adverse effect upon the Company. The investments offered in this document may not be suitable for all prospective investors. An investment in Asian Citrus is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment.*

#### **Risks relating to the business and operations of the Group**

##### ***Risks attaching to future strategy***

The expansion of the Group's operations and business depends on, among other things, its ability to implement its strategies for future growth. Whether these strategies can be implemented is dependent on a number of factors, such as fluctuation in demand for the Group's oranges, changes in consumer preference and demand, and the availability of additional land should the Group seek to increase the number of its plantations. The Group may also require additional funds from time to time to pursue its future strategies. There can be no assurance either that the Group's strategies can be implemented successfully or that the funds required to implement such strategies will be available on appropriate terms or at all. Any failure of the Group to implement its strategies could have a material impact on the Group's business, financial condition and results of operations.

##### ***Increasing sales to supermarkets will require the Group to incur additional costs, which could have a negative impact on working capital***

The Group has been increasing sales to supermarkets and large retailers to enhance growth and intends to seek to continue doing so. Unlike some of the Group's smaller customers, supermarket chains and large retailers typically require that oranges supplied to them meet specific quality standards and be sorted and processed prior to sale, packed for transportation, returnable under certain circumstances and delivered to their place of business. As a consequence, the Group has had to implement tighter quality control procedures, grade, clean and wax oranges prior to delivery, introduce a sales return policy and manage and co-ordinate distribution logistics. All of these measures have required the Group to incur additional costs. There can be no assurance that the increased retail prices achievable by supplying supermarket chains and large customers will continue to offset the higher costs associated with sales to these types of customers. If they do not, the Group's business, financial condition and results of operations could be materially and adversely impacted.

Supermarket chains and large retailers also require the Group to supply oranges on credit terms, which represents a shift away from the Group's historic model of customers paying in cash upon collection of the oranges. The increasing proportion of supermarket chains and large retailers therefore increases the Group's exposure to credit risk. There can be no assurance that all customers to which the Group has sold oranges on credit will pay the amounts owed in a timely manner or at all. A significant delay or default in the payment of invoices issued by the Group could have a material impact on the Group's business, financial condition and results of operations.

An increasing amount of sales on credit to supermarket chains and large retailers may also hinder the ability of the Group to maintain strong cash flows, and its cash flow may be susceptible to increased volatility as additional large customers are won. There can be no assurance that the sale of oranges on credit will not affect the Group's working capital in a way that impedes the Group's ability to meet its financial obligations as they become due.

##### ***The Group's proposed development of a plantation in Hunan province may not proceed or be successful***

The Group's proposed plantation in Hunan province entails a number of significant risks: the Group could be unsuccessful in negotiating a final contract with the relevant PRC government authority; the Group could be unsuccessful in securing the required land parcels and associated land use rights;

construction of the plantation could be subject to delays or not occur at all; the costs of the plantation could be significantly greater than anticipated; or the Group could ultimately fail to achieve a satisfactory return on its investment in the plantation.

The Group has signed a memorandum of understanding with the Hunan Government regarding the plans for a plantation, and has reached agreement in principle on the terms of a proposed investment agreement that would grant the Group, among other things, the right to negotiate agreements directly with the local landowners for the lease of approximately 35 sq. km of land. The Group may be unable to reach agreement with the Hunan Government on a final contract on the terms set out in the memorandum of understanding or at all.

If the final investment agreement with the Hunan Government can be agreed, the ability of the Group to secure the land required for the proposed plantation will depend upon, among other things, the negotiation and execution of definitive documentation in a form satisfactory to all parties. Such definitive documentation is expected to include lease agreements with each of the village committees owning the parcels of land on which the Group plans to build. There can be no assurance that the Group will be able to negotiate final agreements on commercially acceptable terms or at all.

In the event that the Group is successful in securing the land and requisite land use rights, inherent construction and development risks may affect the ability of the Group to develop the plantation. These risks include the availability and costs of materials and labour, adverse weather conditions and government regulation. Furthermore, should a construction company working on the development become insolvent, the Group may be unable to recover compensation for defective work or materials.

In constructing and developing the Hunan Plantation, the costs related to the project could be significantly higher than anticipated. The Directors currently estimate that the development of the Hunan Plantation is likely to cost approximately £35 million, but this figure has not been independently reviewed and the actual development costs could be significantly higher than this. The drain on the Group's resources resulting from large cost overruns could impact on the Group's cash position and the returns (if any) on the Group's investment in the Hunan Plantation.

Finally, even if the Hunan Plantation is constructed and developed successfully, without significant cost overruns and other construction-related problems, there can be no assurance that the Group will be able to manage the plantation profitably or realise a satisfactory return on the capital invested in the construction and development of the plantation.

If any of the above risks materialises, it could have a material adverse effect on the Group's business, financial condition and results of operations.

***The Group may not succeed in developing a national brand in the PRC***

As part of its strategy, the Group intends to support its existing sales network by establishing a national brand in the PRC. In attempting to build such a brand, the Group will need to engage in more extensive publicity campaigns than it has in the past and may require specialist sales and marketing expertise which the Group may not currently possess. Even if the Group invests heavily in the establishment of a national brand, there can be no assurance that such a brand will be successful.

***The Group's proposed entry into the juicing business may not be successful***

As part of its strategy, the Group intends to enter into the juicing business to meet what the Directors believe is growing demand in the PRC market. There can be no assurance that the demand perceived by the Directors exists or will materialise. Even if there is sufficient demand for orange juice in the PRC, the costs involved in setting up a juicing business, including sales, marketing, production, logistics and distribution costs, could be substantial. The Group has held certain discussions with potential strategic partners but there can be no assurance that these will result in an agreement or that any co-operation would be successful. Moreover, the establishment and day-to-day operation of such a business may place a strain on the Group's resources. Accordingly, the proposed juicing business may have a detrimental impact on the profitability and financial condition of the Group. While the Group has a strong track record in the domestic fresh oranges business, there can be no assurance that it will be able to develop or run a successful or profitable juicing business.

***The Group's third-party suppliers may not be able to supply oranges in sufficient quantities to enable the Group to meet the demand from its customers and may not provide oranges of a quality comparable to those produced at the Group's own plantations***

To satisfy anticipated demand for oranges in excess of the Group's production capacity, the Group may seek to source additional oranges from third parties through its subsidiary in Hubei province.

There can be no assurance that the Group will be successful in securing these additional supplies of oranges on commercially acceptable terms or at all. There can also be no assurance that, if successful in negotiating the relevant supply contracts with third parties, these parties will be able to supply oranges in quantities sufficient to meet the demands that the Group faces. Finally, there can be no assurance that the quality of these externally sourced oranges will be comparable to the quality of oranges produced by the Group at its plantations.

***The Xinfeng Development may not be successful or proceed beyond the first phase***

The first phase of the Xinfeng Development is expected to be completed in the second quarter of 2007. However, at the current time, the Group has not received the pre-sale licence required to commence the sale of the units in this phase. There is no certainty that this licence will be received.

The construction and development of the wholesalers' market and related residential units comprising the Xinfeng Development could fail to progress beyond the first phase or could fail to achieve a satisfactory return on the Group's investment. The construction and development costs relating to the Xinfeng Development could be significantly higher than anticipated. The drain on the Group's resources from large cost overruns could impact on the Group's cash position and the return on the Group's investment in the project.

Even if the Xinfeng Development is constructed and developed successfully, without significant cost overruns and other construction-related problems, there can be no assurance that the Group will be able to manage the site profitably or realise a satisfactory return on the capital invested in the construction of the development.

If any of the above risks materialises, it could have a material adverse effect on the Group's business, financial condition and results of operations.

***Proposed Hong Kong listing may not be successful***

The Directors have agreed in principle to seek an additional listing of the Group on the Main Board of the Hong Kong Stock Exchange. There can however be no assurance that an application by the Group for such a listing would be successful.

Further, should the Group proceed with a listing on the Main Board of the Hong Kong Stock Exchange, there can be no assurance that an active trading market will develop or that liquidity in its Ordinary Shares will improve.

***The Group could fail in its acquisition strategy***

The Board is investigating other investment opportunities, including a number of small potential acquisitions. The Group may fail to select appropriate acquisitions or negotiate favourable acquisition or financing terms. There can be no assurance that the Group will complete any acquisition or business arrangement that it pursues, or is pursuing, on favourable terms, or that any acquisitions or business arrangements completed will ultimately benefit its business.

***Reliance on one agricultural product***

The Group derives substantially all of its revenue from the sale of oranges in the PRC. The business and profitability of the Group is therefore dependent on the domestic demand for oranges. In the event that there is a significant reduction in demand for oranges in the PRC, the Group's business, financial condition and results of operations would be adversely affected.

***Dependence on future growth trends***

One of the bases for the Group's expected increase in turnover is the maintenance and growth of high levels of demand for its oranges in the PRC. Given the lack of reliable statistics relating to the consumption of oranges in the PRC, it is especially difficult to predict future levels of demand for the Group's oranges accurately. If the increase in demand expected by the Directors does not materialise, this is likely to have a significant negative impact on the future growth of the Group.

***Limitation to expansion of the Group's operations***

The Group is currently experiencing a period of substantial growth in terms of production capacity, sales volume and new developments and projects. As the scale of its business grows, the Group will have to continually improve the quality of its management, increase the efficiency of its operating and financial systems, procedures and controls and expand the size of its workforce. The Group will also need to maintain the relationships it has with its existing customers and develop relationships with new customers and suppliers as well as with research and development institutions. There can be no

assurance that the Group will be able to achieve any or all of this successfully, and failure to do so may have a material adverse effect on the Group's business, financial condition and results of operations.

#### ***Sustainability of the Group's profit margin***

The primary business of the Group is cultivating and selling oranges. If, for any reason, sales levels of oranges by the Group cannot be sustained, or the selling price of oranges decreases, the Group's profit margin will be reduced. In addition, a significant increase in the Group's costs of operation, such as labour and transportation costs, would be likely to reduce the Group's profit margin.

#### ***Increasing cost of raw materials***

The Group purchases large quantities of organic fertilisers and pesticides as part of its cultivation business. As a result of a substantial increase in demand for organic fertiliser, prices rose materially during the Group's financial year ended 30 June 2006. While the Directors believe that the rate of increase in the price of organic fertiliser prices is returning to a normal level as supply increases, prices remain substantially higher than in previous years. If demand for organic fertiliser continues to grow at a faster rate than increases in supply, the Group is likely to face further material increases in raw material costs. If the Group is unable to pass on the increased cost of raw materials to its customers, the financial condition and results of operations of the Group could be materially and adversely affected.

#### ***Concentration of customers***

The Group's customers include major retailers and wholesalers. Increasingly, its retail customers include supermarket chains that have large and growing shares of the markets in which they operate. Greater concentration of the retail market may mean that it is more difficult for the Group to pass on any cost increases.

Consistent with industry practice, the Group does not operate under long-term written supply contracts with any of its customers. The loss of one or more of the Group's major customers would be likely to have a material adverse effect on the Group's business, financial condition and results of operations.

#### ***Dependence on fruit growing conditions and the availability of water***

Orange production is subject to many risks common to agriculture that can materially and adversely affect the quality and quantity of oranges produced. These hazards include, among other things, adverse weather conditions such as drought, severe frost, excessive rain, excessive heat, prolonged periods of cold weather, lack of water and natural disasters, such as hurricanes, floods and earthquakes, any or all of which could materially and adversely affect the condition of the orange trees and the quality and quantity of oranges they produce, and in turn, the Group's profitability. The Group's plantations are also susceptible to certain diseases, as well as to infestation by certain insects and pests, the effect of which can be to increase operating expenses, reduce or eliminate yields, disrupt or delay harvesting or kill orange trees, any or all of which could have a materially adverse effect on the Group's financial condition and results of operations. There can be no assurance that future weather, diseases, other fruit growing conditions or lack of water will not have a material adverse effect on the Group's business, financial condition and results of operations.

#### ***Seasonal fluctuations in revenue***

The Group's revenue is subject to seasonal fluctuations. The Group records higher levels of sales during the harvest periods of October to December for winter oranges and from mid-March to the beginning of June for summer oranges. At the Hepu Plantation, both winter and summer oranges are produced. The Navel species of winter orange which will be produced at the Xinfeng Plantation is harvested between November and January. Any substantial disruption to the operations of the Group during a harvest period may have a material adverse impact on the Group's cash flow.

#### ***Competition from new entrants to the market and the formation of co-operatives***

The Group faces competition from a large number of domestic and foreign citrus fruit growers.

The Directors consider that there are significant barriers to entry facing any foreign producer contemplating establishing an orange growing business in the PRC. However, many foreign producers have substantially greater financial and other resources than the Group and, despite the barriers to entry, have the ability to establish sizeable operations in the PRC. There can be no assurance that the Group would be able to compete successfully against any such foreign producers and there is a risk

that its business, financial condition and results of operations would be adversely impacted by any resulting customer defections.

Historically, competition from domestic producers has been limited since most operate substantially smaller plantations than the Group's. It is, however, possible that such other domestic orange producers could join together to form co-operatives with significant aggregate capabilities in production, processing and transportation. There can be no assurance that the Group would be able to compete successfully against such co-operatives, and its profitability and financial condition would be adversely impacted by any resulting customer defections.

***Material increase in supply of orange trees planned by PRC Government***

The Directors believe that the provincial government in Guangxi is considering establishing or encouraging the establishment of a number of orange tree nurseries in the region in the near term and that this may lead to the planting of up to 50 million new trees. While the Guangxi government has expressed an intention to involve the Group in its plans to cultivate and subsequently plant the requisite orange tree seedlings, the success of the Group's planned nursery business could be affected by the increased availability of orange trees as a result of this government initiative.

Furthermore, this increase in the supply of orange trees, and similar initiatives by other local governments, could lead to competition from either existing or new market participants using the additional trees to develop their business, which could have a material adverse effect on the Group's business, financial condition and results of operations.

***Risks attaching to the Group's joint venture with Calfruits and other arrangements with third parties***

The Company's ability to exercise control over Asian Fruits, the fruit trading company established as a joint venture with Calfruits, depends on the terms of its joint venture agreement with Calfruits. The Group may also face financial or other exposure in the event that Calfruits fails to meet its obligations under the joint venture or encounters financial difficulty. Disputes may arise with Calfruits, which could result in the Company not being able to manage or deal with a particular issue in the way that it would wish and may adversely affect the Group's results of operations.

In addition, a significant proportion of the Group's product distribution operations is currently outsourced to a single third party not controlled by the Group. This part of the distribution operations is dependent upon the continuing relationship with that third party and its ability to provide the distribution services required by the Group. A temporary or permanent disruption to these distribution arrangements, or other third-party arrangements, could lead to the loss of important customers and have a material adverse effect on the Group's business, financial condition and results of operations.

***Reliance on the Hepu Plantation***

Substantially all of the Group's revenue is currently derived from the sale of oranges produced at the Hepu Plantation. Should there be any adverse conditions affecting the yield of the Hepu Plantation, the Group's financial condition and results of operations would be adversely affected. The Directors expect the first commercial harvest on the Xinfeng Plantation to take place in November 2007. However, since this harvest will initially comprise oranges from only 400,000 of the 1.2 million trees planted at the Xinfeng Plantation to date, the Group will continue to be largely reliant upon the revenue stream derived from the production and sale of oranges from the Hepu Plantation until at least 2010.

***Dependence on key management personnel and technical staff***

The operations of the Group are largely dependent upon the continuing employment by the Group of a number of key management personnel and Executive Directors. The future success of the Group depends largely upon the efforts and expertise of such individuals. The loss of the service of any such members of management personnel could have a material adverse effect on the business of the Group. The Group also has no 'keyman' insurance to mitigate this risk.

The Group's future also depends on its ability to recruit and retain skilled and experienced technical staff to support the expansion plans it has. Failure to recruit and retain such staff may have a material adverse impact on the Group's operation and business.

***Leasing of land in the PRC***

Although the Group has entered into leases with various legal landowners and has obtained all necessary Certificates of Other Rights on Land in respect of its plantations at Hepu and Xinfeng, it

faces risks that are inherent in such leasing arrangements. These risks are likely to apply equally to any land leased by the Group in the future in connection with the development of the Hunan Plantation. Any of the lessors could breach its obligations under the relevant lease agreement. Should the Group lose the right to use a significant portion of a plantation as a consequence of a dispute or challenge relating to its leases or associated land use rights and subsequently encounter difficulty in finding suitable alternative plots of land, the Group's business may be disrupted and its financial condition and results of operations may be adversely affected.

The parcels of land currently occupied by the Group's plantations are leased directly or indirectly from numerous lessors (including local village committees and local production teams) that legally own the land. The lease term of both of the Group's existing plantations with each set of lessors is 50 years from the relevant start date. Lease agreements can be terminated if there is any material breach of any of its obligations by the Group or breach of any PRC law or regulation in exercising its leasing rights under the relevant lease agreements. The leases may also be terminated as a result of a compulsory purchase of land by the PRC Government. While there is a risk that the leases may not be renewed upon expiry, the Group has a contractual right to negotiate with the Xinfeng Government for an extension or renewal of the term under the Xinfeng Lease. There is no guarantee that the Group would be able to secure new leases on commercially viable terms with the owners of other agricultural land in respect of either the Hepu Leases or the Xinfeng Lease.

#### ***Inconsistent administration of forestry laws***

The land on which the Hepu Plantation and the Xinfeng Plantation are located is forest land and is subject to forestry law in the PRC, which provides for the registration of ownership and usage of forest land. Under the forest land registration system, various certificates are required to be obtained by the relevant users and owners of land ("Forestry Certificates").

However, in August 2004, each of the Hepu Government and the Xinfeng Government separately confirmed that they and their respective bureaux of forestry had not adopted the practice of issuing Forestry Certificates to the relevant users and owners since the promulgation of the Forestry Law in 1985. Both the Hepu Government and the Xinfeng Government have also confirmed that they have not been requested by a superior government agency or forest land administration authority to adopt such a practice. However, there is no guarantee that either the Hepu Government or the Xinfeng Government will continue to apply the same approach in relation to the enforcement of Forestry Law or that the PRC Government will not require the Hepu Government or the Xinfeng Government to enforce the Forestry Law. If the Group is required to obtain Forestry Certificates in respect of the Hepu Plantation or the Xinfeng Plantation and is, in either case, unable to do so, this may have an adverse effect on the Group's ability to cultivate the Hepu Plantation or the Xinfeng Plantation respectively and, as a result, it may not be able to meet the demand from customers which may defect to other suppliers which would have an adverse effect on the Group's business, financial condition and results of operations. The Directors however, consider that if the Hepu Government or the Xinfeng Government did require Forestry Certificates to be obtained in respect of the Hepu Plantation or the Xinfeng Plantation, the Group would be able to apply for and obtain such certificates.

#### ***Reliance on farm workers***

The Group relies upon large numbers of farm workers for its cultivation activities. The Group also employs local villagers at the Hepu Plantation on a part-time basis during the harvest season.

While it has not done so to date, should the Group encounter labour disputes or face difficulties in recruiting farm workers in the future (whether due to the imposition of a legal or regulatory restriction on the recruitment or employment of local villagers or otherwise), the Group's business could be disrupted and its financial condition and results of operations could be adversely affected.

#### ***Lack of insurance***

Except for insurance against loss of trees caused by natural disasters at the Hepu Plantation, the Group has no insurance in place in relation to the operation of its business. There is no insurance covering the loss or failure of a harvest, whatever the cause. In particular, there is no insurance in place against losses caused by diseases or viruses which may damage or destroy trees or crops. In addition, the Group has not taken out insurance over any of its plant and machinery and other fixed assets, including the irrigation systems, at either the Hepu Plantation or the Xinfeng Plantation. The Group relies heavily on the continued functioning of its plant and machinery, and the inability of the Group to replace or recover any sums of money in respect of defective, damaged or destroyed plant

or machinery through appropriate insurance cover may have a material adverse effect on its business, financial condition and results of operations. In addition, the Group has invested substantial sums in the development of the Xinfeng Plantation, and the inability of the Group to replace or recover any sums of money in respect of damaged or destroyed trees at the Xinfeng Plantation due to a lack of insurance cover may have a material adverse effect on the Group's business, financial condition and results of operations.

#### ***Product liability***

The Group, like other food producers, faces an inherent risk of claims in respect of defective produce. If the Group's oranges are found to be unfit for consumption, the Group may be required to compensate affected consumers for any illness or injury suffered. Personal injury and product liability claims could be expensive to defend and could result in an award of damages being made against the Group. Should the Group begin to export, this risk is likely to increase, particularly if exporting to more developed countries. Further, if such claims are publicised, the Group's reputation and brand could be adversely affected.

The Group does not have any insurance in place to cover product liability, as the Directors believe it is unlikely that the Group's product liability risks could be insured at what the Directors regard as a commercially acceptable cost. Any liability and possible claims relating to defective oranges could have a material adverse effect on the business, financial condition and results of operations of the Group.

#### ***Lowering of import tariffs***

On becoming a member of the WTO, the PRC agreed to lower tariffs on imported agricultural produce and to eliminate quotas and other quantitative restrictions on agricultural imports. The average tariffs imposed on imported oranges have been reduced progressively from 40 per cent in 2001, prior to China's WTO accession, to 11 per cent in 2006. The Directors expect that the lowering of import tariffs and the elimination of quotas and other import restrictions by the PRC Government in respect of agricultural produce will bring increased competition from overseas suppliers. Such increased competition may have a material adverse effect on the Group's business, financial condition and results of operations.

#### ***Unauthorised use of the Group's brand name and developing and preserving its value***

Asian Citrus increasingly regards its brand name and trademark as an important component of its success. Unauthorised use of the Group's brand name or trademark by third parties may adversely affect its business and reputation, including the perceived quality of its products. The Group has not registered its trademarks or brand in any country or jurisdiction other than Hong Kong and the PRC. Consequently, the Group can enforce its intellectual property rights in Hong Kong and the PRC whereas for other jurisdictions, it may be unable to bring trade mark infringement actions against third parties but still may receive some protection under other laws depending on the jurisdiction. The Directors intend to protect the Group's intellectual property rights by putting in place a brand management strategy, registering its core trade marks in markets in which it has an interest or to which it plans to extend its business, assert its rights wherever possible to protect its intellectual property interest and take necessary actions to enforce its intellectual property rights. However, because the validity, enforceability and scope of protection of trademarks in the PRC are uncertain and still evolving, there can be no assurance that these measures will prevent the unauthorised use of the Group's trademarks or brand name.

Litigation may also be necessary in the future to protect the Group's brand name. Due to the inherent uncertainty associated with litigation and enforcement procedures in the PRC, the Group may not be successful in pursuing claims. Future litigation could also result in substantial costs and diversion of resources and could disrupt the Group's business. Accordingly, such litigation could have a material adverse effect on the Group's financial condition and results of operations.

#### ***Inability to maintain an effective system of internal controls over financial and regulatory reporting***

The Group has, in recent years, worked to enhance and update its system of internal controls over financial and regulatory reporting, a process the Directors intend to continue. While the sophistication of the Group's systems and technology may be lower than those of a typical UK-listed company, the Directors believe they are appropriate for the Group's size and the market in which it operates. Nevertheless, any failure to maintain effective internal controls over financial and regulatory reporting could harm the Group's business and result in a loss of investor confidence in the reliability of the

Group's internal controls over financial and regulatory reporting procedures, either of which could negatively impact the trading price of its Ordinary Shares.

#### ***Environmental pollution and contamination***

Given the nature of the Group's business, its operations are susceptible to the damage caused by pollution, including air, water and soil pollution. In recent years, air and water pollution, as well as soil contamination, have been reported in various parts of the PRC, resulting in extensive damage to crops. As far as the Directors are aware, the Group's operations have not been affected by pollution or contamination. However, to the extent that pollution or contamination causes damage to the Group's plantations in the future, the Group's business, financial condition and results of operations may be adversely affected.

In the course of its operations, the Group may have unknowingly produced pollutants or otherwise caused environmental damage. These acts may have breached applicable PRC environmental laws and regulations and the Group may continue to do so unless and until such breaches (if any) are brought to the Group's attention. The existence of any such pollutant, contaminant or environmental damage may result in environmental claims against the Group, which, if successful, would (especially in light of the Group's lack of insurance) adversely affect the Group's business and profitability.

#### **Risks relating to the PRC**

##### ***Changes in government policies***

The agricultural industry in the PRC is subject to the policies which are implemented by the PRC Government from time to time. These policies may have a material impact on the PRC agricultural industry. The PRC Government may, for instance, impose control over the pricing and sale of agricultural produce. It may also withdraw any subsidies or forms of preferential treatment such as tax benefits or favourable financing arrangements. If the Group's plantations and/or sale of the Group's agricultural produce should become subject to any form of government control, it could have a material adverse effect on the Group's business and profitability.

##### ***Economic considerations***

The PRC has a long history of planned economy and is subject to annual, five and ten year plans formulated by the PRC Government. In recent years, the PRC Government has introduced economic reforms aimed at transforming the PRC economy from a planned economy into a market economy with socialist characteristics. These economic reforms allow greater utilisation of market forces in the allocation of resources and greater autonomy for enterprises in their operations. However, many rules and regulations implemented by the PRC Government are still at an early stage of development, and further refinements and amendments are necessary to enable the economic system to develop into a more sophisticated form. The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy, but may also have a negative effect on the Group. For example, the Group's financial condition and results of operations may be adversely affected by certain changes in tax regulations applicable to it. The PRC Government has implemented certain measures, including a recent interest rate increase, to control the pace of economic growth. These measures may cause decreased economic activity in the PRC which could, in turn, adversely affect the Group's financial condition and results of operations. It is unclear how future economic reforms and macroeconomic measures to be adopted by the PRC Government will affect the economic development of or the agricultural industry in the PRC. Further, there can be no assurance that such measures will be applied consistently or effectively or that the Group will benefit from or be able to capitalise on such reforms.

##### ***Legal considerations***

Since 1979, many laws and regulations dealing with economic matters with respect to general and foreign investments have been promulgated in the PRC. In 1982, the PRC National People's Congress amended the constitution to attract foreign investments and to safeguard the "lawful rights and interests" of foreign investors in the PRC. Since then, the trend of legislation has been to enhance the protection afforded to foreign investors and to allow more active control by foreign investors of FIEs in the PRC. However, despite significant improvements in its legal system, there still exist difficulties in obtaining swift and equitable enforcement and in obtaining enforcement of judgments by a court of another jurisdiction in the PRC. Further, as a result of political changes, the interpretation of

statutes and regulations may be subject to government policies. Such uncertainties may affect the Group's operations and accordingly its profitability.

***Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi***

As the majority of the Group's cash and cash equivalents are denominated in Renminbi and the net proceeds from the Placing will be denominated in pounds sterling, fluctuations in exchange rates between those currencies will affect the relative purchasing power of the proceeds and the Group's balance sheet and earnings per share in pounds sterling. In addition, appreciation or depreciation in the value of the Renminbi relative to the pound would affect the Group's financial results reported in pounds sterling terms without giving effect to any underlying change in the Group's business financial condition or results of operations.

On 21 July 2005, the People's Bank of China reformed the Renminbi exchange rate regime by moving to a managed floating exchange rate based on market supply and demand with reference to a basket of currencies. Since that date, the Renminbi has no longer been pegged to the US dollar.

The People's Bank of China will periodically adjust the Renminbi exchange rate band as necessary and, as a consequence, the Renminbi exchange rate will be more flexible than before. There is therefore a risk that the fluctuations in the Renminbi exchange rate may be greater than were previously experienced, and any large appreciation or devaluation of the Renminbi against the US dollar or other currencies could have an adverse effect on the Group's business and operating results. Fluctuations in the exchange rate will also affect the relative value of any dividend the Group declares after the Placing which will be exchanged into pounds sterling.

In addition, financial markets in many Asian countries have in the past experienced severe volatility. As a result, some Asian currencies have been subject to significant devaluation from time to time. The devaluation of some Asian currencies may have the effect of rendering exports from the PRC more expensive and less competitive. An appreciation in the value of the Renminbi could have a similar effect.

Under the current regulations on foreign exchange control in the PRC, FIEs are allowed to convert and remit to foreign investors outside the PRC profits or dividends in foreign currencies through designated foreign exchange banks without the prior approval of the SAFE. However, the exchange of the Renminbi into foreign currencies for capital items, such as direct investment, loans and security investment, is subject to strict controls and requires the approval of the SAFE. The distribution of the Group's profits and dividends may be adversely affected if the PRC Government imposes greater control on the ability to exchange Renminbi into foreign currencies. There can be no assurance that the Group will be able to obtain sufficient foreign exchange to pay dividends or satisfy other foreign exchange requirements in the future.

***Receipt of dividends from, and transfer of funds to, the Group's PRC-incorporated operating subsidiaries***

The Company is a Bermuda incorporated company, holding the operating subsidiaries of the Group through Newasia, a BVI incorporated company. The operating subsidiaries, namely Lucky Team (Hepu) and Litian (Xinfeng), are FIEs. The ability of these subsidiaries to declare dividends and other payments to the Company may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations in the PRC and in BVI. In particular, gains arising from the revaluation of biological assets are not recognised under PRC accounting standards and therefore are subject to limitations on their distribution as dividends. In addition, under PRC law, profit available for distribution from PRC operating subsidiaries is determined in accordance with generally accepted accounting principles in the PRC. The result of such a calculation may differ from the result of the calculation performed in accordance with International Financial Reporting Standards. As a result of the difference in treatment of biological assets or the potential difference in profit calculation, there is a risk that the Group's PRC-incorporated subsidiaries may not have sufficient profits to distribute to the Company through Newasia nor to make any operating distributions to Shareholders in the future.

In addition, distributions by the Company's subsidiaries to the Company through Newasia, other than as dividends, may be subject to governmental approval and taxation. Any transfer of funds from the Company to its PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or the approval of certain PRC governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority.

Further, it is not permitted under PRC law for the Company's PRC subsidiaries to lend money to each other directly. It is therefore difficult to alter the Group's capital expenditure plans once the

relevant funds have been remitted from the Company or Newasia to its PRC-incorporated subsidiaries. These limitations on the free flow of funds between Newasia and its PRC subsidiaries could restrict the Group's ability to act in response to changing market conditions by reallocating funds from one PRC subsidiary to another in a timely manner.

***Discontinuation of any preferential tax treatment or financial incentives currently available to the Group***

Continued eligibility for the financial incentives that the Group receives requires it to continue to meet a number of financial and non-financial criteria on an ongoing basis. Since the receipt of the financial incentives is subject to periodic time lags and inconsistent government practice on payment times, for so long as the Group continues to receive these financial incentives, its net income in a particular period may be higher or lower relative to other periods based on the potentially uneven receipt of these financial incentives in addition to any business or operating related factors it may otherwise experience.

The Group may not continue to enjoy these preferential tax treatments or financial incentives in the future. Any increase in Lucky Team (Hepu)'s corporate income tax rate, or any discontinuation of these preferential tax treatments or financial incentives could adversely affect the Group's business, financial condition and results of operations. Moreover, the Group's historical operating results may not be indicative of its operating results for future periods as a result of the expiration of the tax holidays it enjoys.

***PRC tax reform***

It is widely expected that the passage for wide Unified PRC tax reform will be announced in early 2007 with an expected effective date of 1 January 2008. The tax reform is expected to include an income tax unification to unify the currently separate tax systems applicable to foreign enterprises and domestic Chinese enterprises. The income tax rate may be unified to a standard rate of 25%, together with other potential changes in the income tax law. Existing tax incentives enjoyed by foreign investment enterprises may no longer be applicable after the tax unification. In particular, it is widely expected that the exemption from PRC withholding tax on dividends paid by foreign investment enterprises is expected to be removed and dividends will be subject to the prevailing withholding tax rate (currently 20%, although this may be reduced under a relevant double tax agreement). There is likely to be a "grandfather rule" whereby tax holiday and tax reduction incentives approved prior to unification will be allowed for the five years from 2008 through 2012. Subject to finalisation of the Unified Tax Law, the expected changes to the PRC tax system could have a negative impact on the tax position of the group.

***Future outbreaks of avian flu or severe acute respiratory syndrome in the PRC, or other adverse public health developments***

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of the PRC. Some Asian countries, including the PRC, have recently encountered incidents of the H5N1 strain of bird flu, or avian flu. The Group is unable to predict the effect, if any, that avian flu may have on its business. Moreover, from December 2002 to June 2003, the PRC and other countries experienced an outbreak of a new and highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome or SARS. On 5 July 2003, the World Health Organisation declared that the SARS outbreak had been contained. However, a number of isolated new cases of SARS were subsequently reported, most recently in central China in April 2004. During May and June of 2003, many businesses in the PRC were closed by the PRC Government to prevent transmission of SARS. In particular, any future outbreak of avian flu, SARS or similar adverse public health developments may, among other things, significantly disrupt the Group's ability to adequately staff its business and may adversely affect its operations. Furthermore, an outbreak may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect the Group's business and prospects.

**Risks relating to the Ordinary Shares**

***Bermuda company law***

As a company incorporated in Bermuda, the Company is subject to Bermuda company law. English law and regulation may provide shareholders of English-incorporated companies with certain rights and protections which the Bermuda Act and other provisions of Bermuda law may not. Accordingly, an investor in the Company may not be accorded the same rights or level of shareholder protection

as a shareholder in an English-incorporated company. A summary of certain provisions of the Bermuda Act is set out in paragraph 2.4 of Part VII of this document.

#### ***Takeover Code***

The City Code on Takeovers and Mergers (the “Takeover Code”) does not apply to the Company and, therefore, a takeover of the Company would be unregulated by the UK takeover authorities. While the Bye-laws contain certain takeover protections, these do not provide the full protections afforded by the Takeover Code. The relevant provisions of the Bye-laws are summarised in paragraph 2.2 of Part VII of this document.

#### ***Transferability of Ordinary Shares***

As a Bermuda-incorporated company, the Company is subject to the consent of the Bermuda Monetary Authority over the free transferability of its Ordinary Shares. General permission has been given by the Bermuda Monetary Authority for the issue and subsequent transfer of the Ordinary Shares from and/or to a non-resident of Bermuda for exchange control purposes for so long as the Ordinary Shares are listed on AIM. If, at any time following Admission, the Bermuda Monetary Authority withdraws its consent to the free transferability of the Company’s Ordinary Shares, then trading of the Company’s Ordinary Shares on AIM would be suspended with immediate effect.

#### ***Liquidity and possible price volatility of the Ordinary Shares***

The Ordinary Shares of the Company are currently relatively illiquid due to the Company’s relatively small market capitalisation and free float. There can be no assurance that liquidity will improve following the Placing. An active trading market for the New Ordinary Shares may not develop and the trading price of Ordinary Shares may fluctuate significantly. The Placing Price may not be indicative of the price at which the Ordinary Shares will trade following completion of the Placing and there can be no assurance that the market price of the Ordinary Shares will not decline below the Placing Price.

Trading on AIM should not be taken as implying that there is a liquid market for the Ordinary Shares. It may be more difficult for an investor to realise his investment in the Company than in a company whose shares are quoted on the Official List of the UK Listing Authority.

The market price quoted for the Ordinary Shares may also be subject to significant volatility as a result of, among other things:

- investor perceptions of the Group and the Group’s business plans;
- variations in the Group’s operating results;
- announcements of new agricultural produce;
- changes in pricing policy made by the Group, its competitors or other agricultural producers;
- changes in senior management personnel; and
- general economic and other factors.

#### ***Dividends***

There can be no assurance as to the timing or level of future dividends. The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Directors, and will depend upon, among other things, the Company’s earnings, financial position, cash requirements and availability of profits, as well as the provisions of relevant laws or generally accepted accounting principles in the PRC from time to time.

#### ***Shareholders may not be able to enforce a judgment of a foreign court against the Company***

A significant portion of the Group’s assets and subsidiaries are located in the PRC. In addition, most of the Directors reside within the PRC, and their assets may also be located within the PRC. As a result, it may not be possible to effect service of process outside the PRC upon most of the Directors, including matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may not be reciprocally recognised or enforced if the jurisdiction does not have a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. The Company’s PRC legal counsel, GFE Law Office, has advised that the PRC does not have treaties providing for reciprocal enforcement of judicial judgments with Japan, the United Kingdom, the United States or most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong

Kong of judgments of a court in these jurisdictions in relation to any matter not subject to a binding arbitration provision is subject to uncertainty.

***Dilutive impact on earnings***

The benefits of the investment of the proceeds from the Placing will likely take a number of years to be realised (if they are realised at all). Consequently, the Company's earnings per share will be materially diluted as a result of the increase in the number of Ordinary Shares in issue following the Placing and Conversion.

***Sales of shares by the existing major Shareholders may depress the share price***

It is expected that in connection with the Placing, the Selling Shareholders will dispose of Ordinary Shares to raise up to £10 million, which could have an adverse impact on the prevailing market price of the Ordinary Shares. Such transactions may make it difficult for the Company to issue further equity in the future.

***Control by major Shareholders***

As at the date of this document, Market Ahead and Huge Market are interested in an aggregate of approximately 80.2 per cent of the issued share capital of the Company. Mr Tong Wang Chow and Mr Tong Hung Wai, Tommy, who own in aggregate 82 per cent of the issued share capital of Market Ahead, are Executive Directors of the Company. Mr Ip Chi Ming, a Non-Executive Director of the Company, is also an executive director of Chaoda, the parent company of Huge Market. Through their substantial indirect holdings in the Company, Mr Tong Wang Chow, Mr Tong Hung Wai, Tommy, and Mr Ip Chi Ming are able to exercise significant influence over certain corporate governance matters requiring Shareholder approval, including the election of Directors, the approval of significant corporate transactions, the issuance of equity and any other transactions requiring a majority vote.

***Securities traded on AIM***

Investment in securities traded on AIM is perceived to involve a higher degree of risk than investment in companies whose shares are listed on the Official List. AIM has been in existence since June 1995 but there can be no assurance as to its future success.

In addition, AIM is a less regulated market than the Official List. For example, there are fewer circumstances in which the Company would be required to seek shareholder approval for transactions and the requirements for disclosure of the financial history of any companies or assets that are acquired may be lower. Shareholders may suffer actual or perceived prejudice to the extent the Company takes advantage of the increased flexibility it is allowed in having an AIM admission.

## PART III

### Summary of the Placing and Rationale

#### Summary of the Placing

The Company is proposing to raise up to £18 million net of expenses by way of a non pre-emptive placing to institutional and other qualified investors of New Ordinary Shares. In addition, the Selling Shareholders intend to dispose of Sale Shares to raise up to £10 million<sup>1</sup>. The Placing will, in aggregate, raise up to £30 million for the Company and the Selling Shareholders.

The issue of the additional Ordinary Shares was approved by the Shareholders at an SGM held on 15 March 2007.

The Directors and the Selling Shareholders have agreed not to dispose, save in certain limited circumstances, of any interest in Ordinary Shares for the six months following the Placing without the prior written consent of JPMorgan Cazenove. In addition, the Company has undertaken not to issue any New Ordinary Shares, save as required pursuant to the exercise of options issued under the Share Option Plan, within the six-month period following the Placing, without the prior consent of JPMorgan Cazenove.

The Company, the Selling Shareholders and JPMorgan Cazenove have entered into the Placing Agreement, pursuant to which JPMorgan Cazenove has agreed, subject to certain conditions, to use its reasonable endeavours to procure subscribers or purchasers for the Placing Shares (as the case may be) and, following announcement of the Placing Price, to underwrite such subscribers' and purchasers' obligations to pay for the Placing Shares. The Placing Price will be fixed following a bookbuilding period to commence on 28 March 2007 and expected to end on 29 March 2007<sup>2</sup>.

The Directors have agreed in principle to seek an additional listing of the Group on the Main Board of the Hong Kong Stock Exchange and are working with Cazenove Asia to assess the Group's eligibility for such a listing.

As part of the secondary sale, Metage Funds and Metage Special Emerging Markets Fund have indicated that they intend to give notice to the Company of their decision to convert, under the terms of the Convertible Bonds, HK\$38,500,000 and HK\$17,500,000 in principal amount into 2,360,515 Ordinary Shares and 1,072,961 Ordinary Shares respectively, part of which is to be for sale in the Placing (such notice to take effect on or prior to the announcement of the Placing Price). The Company has signed a letter dated 28 March 2007 (the "Conversion Notice Period Waiver") agreeing that the requirement to give five days' notice to effect conversion of the Convertible Bonds in accordance with their terms be waived. The Company has agreed to use its reasonable endeavours to procure that Conversion takes place as soon as practicable following receipt of the relevant notice(s). The Directors (with the exception of Peregrine Moncreiffe who, for the purposes of the Conversion Notice Period Waiver, is a related party under the AIM Rules) consider, having consulted with JPMorgan Cazenove, that the terms of the Conversion Notice Period Waiver are fair and reasonable insofar as Shareholders are concerned.

The New Ordinary Shares to be issued pursuant to the Placing and the Conversion Shares to be issued pursuant to the Conversion will, when issued, be credited as fully paid and rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, paid or made after the date of issue.

The Company has applied to the London Stock Exchange for the New Ordinary Shares and the Conversion Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence on 3 April 2007.

The Placing will be conditional upon Admission becoming effective and the Placing Agreement becoming unconditional in all respects, and not having been terminated in accordance with its terms, prior to 8:00 a.m. on 3 April 2007 (or such later date and/or time as may be agreed between the Company and JPMorgan Cazenove, being not later than 8:00 a.m. on 30 April 2007).

Further details of the terms of the Placing (and lock-in arrangements) are set out in Part V of this document, and further details of the Placing Agreement are set out in paragraph 8 of Part VII.

<sup>1</sup> Or such other amount as may be agreed by the Company, the Selling Shareholders and JPMorgan Cazenove.

<sup>2</sup> JPMorgan Cazenove reserves the right to close the Bookbuilding and announce allocations at any earlier or later time (with the consent of the Company).

### **Rationale and use of proceeds**

The Directors believe that the Group is poised for a phase of significant development and growth. This belief is underpinned by the increasing level of orange consumption in the PRC from a relatively low historical base, growing demand for high quality oranges, the potential to improve the Group's average sale prices by increasing sales to supermarkets and the Group's strong competitive position against both overseas importers to the PRC and local producers.

The Directors believe that there are opportunities for the Group to build on its market-leading position and to further improve its growth prospects, namely:

- its proposed new plantation in Hunan province;
- its proposed entry into the juicing business; and
- investing in the existing business.

The Directors anticipate that the net proceeds will principally be used to finance, in part, the development of the Hunan Plantation, with the majority of the remaining net proceeds allocated for investment in the Group's proposed juicing business.

### ***Hunan Plantation***

To secure additional supplies to help meet the expected increase in demand for oranges in the PRC, the Group has identified Dao County in Hunan province as a suitable site for the development of a third orange plantation. On 12 March 2007, the Group signed a memorandum of understanding with the Hunan Government regarding the plans for a plantation, and has reached agreement in principle on the terms of a proposed investment agreement that would grant the Group, among other things, the right to negotiate agreements directly with the local landowners for the lease of approximately 35 sq. km of land.

The site of the proposed plantation in Hunan province benefits from favourable conditions conducive to the production of summer oranges, including topography, soil conditions and weather. The Group intends to plant a combination of early- and late-ripening summer Valencia orange trees at the Hunan Plantation. The Directors expect this combination to extend the Group's harvest periods into January, February and late June, enabling the Group to supply oranges during periods of unmet demand and reducing the seasonality of the Group's revenue.

Provided the Company is able to successfully conclude a definitive investment agreement with the Hunan Government and lease agreements with the local landowners, the Directors expect the site to be fully developed, with 2.4 million orange trees, by 2010. If the development of the Hunan Plantation proceeds on schedule, the Directors expect that the plantation's first commercial harvest will take place in 2012. The Directors currently estimate that the development of the Hunan Plantation is likely to cost approximately £35 million.

### ***Juicing***

The Group sees an opportunity to expand vertically and in particular, to invest in developing certain value-added products such as orange juice. As a result of increasing prosperity and disposable income in the PRC, the Directors believe that demand for orange juice is growing, and they have been considering entering the juicing business to capitalise on this expected increase in demand.

The strategy for these juicing operations is currently being finalised. The Group has already held certain discussions with potential strategic partners about juicing co-operation arrangements.

### ***Additional growth opportunities***

The Group's policy is to invest actively in internal growth by expanding its existing operations, building the Asian Citrus brand, establishing sales offices to target national supermarkets, securing sources of additional oranges to fulfil any demand for the Group's oranges in excess of the Group's own production capacity.

Finally, the Board is investigating other investment opportunities, including a number of small potential acquisitions, with a view to enhancing the Group's sourcing and distribution of oranges.

## PART IV

### Information on the Group

#### Introduction

The Group is the single largest orange plantation owner and, the Directors believe, the single largest orange producer in the PRC. Asian Citrus currently owns and operates two orange plantations: the Hepu Plantation in Hepu County in the Guangxi Zhuang Autonomous Region, occupying approximately 30.9 sq. km, and the Xinfeng Plantation in Xinfeng County in Jiangxi province, occupying approximately 37.1 sq. km. The Hepu Plantation produced approximately 111,201 tonnes of oranges in the financial year ended 30 June 2006. The Directors expect the development of the Xinfeng Plantation to be completed in June 2007 and the plantation's first commercial harvest to take place in November 2007.

The Group cultivates and sells two types of oranges: winter (the varieties grown being Navel, Hamlin, Pineapple and Hong Jiang) and summer (principally Valencia). The Group sells its oranges in the PRC to supermarket chains, corporate customers, wholesalers and sole proprietors in the PRC.

To secure further supplies of oranges to help meet increases in demand anticipated by the Directors, the Group has identified Dao County in Hunan province as a suitable site for the development of a third orange plantation. On 12 March 2007, the Group signed a memorandum of understanding with the Hunan Government regarding the plans for a plantation, and has reached agreement in principle on the terms of a proposed investment agreement that would grant the Group, among other things, the right to negotiate agreements directly with the local landowners for the lease of approximately 35 sq. km of land.

#### Key strengths

The Directors consider the key strengths of Asian Citrus to be the following:

##### *Well located plantations with high quality produce and inherent growth potential*

The Group's existing plantations, as well as the potential third plantation, are located in areas of the PRC that enjoy a significant amount of sunshine, good levels of rainfall and long frost-free periods each year. The sites of the Group's existing plantations historically have not suffered unusually strong storms or similarly adverse weather conditions.

In addition, the Directors believe that due to the benefits of investment, the US varieties of species used and expert plantation management, the Group's produce is of a higher quality than the majority of oranges produced in the PRC, enabling the Group to maintain higher prices and benefit from stronger demand.

The Group also benefits from inherent growth potential as infant trees at its plantations start to produce fruit and as trees aged between four and ten years increase their production yields. Over the medium term, the Directors expect production volume to increase as the trees at the Xinfeng Plantation mature.

##### *Strong expected growth in demand for the Group's oranges*

The Directors believe that demand for high quality oranges in the PRC currently exceeds supply and that this can be attributed in large part to the significant increases in per capita GDP in the PRC in recent years. The Ministry of Agriculture estimated in 2004 that the PRC's per capita consumption of citrus fruit was then approximately 9 kg per year. The PRC Government forecasts that annual consumption will reach 11.7 kg and 16 kg per person in 2015 and 2030 respectively,<sup>1</sup> based on current consumption trends and growth in consumer purchasing ability.

Consumption in most Southeast Asian nations is similarly low, providing the potential for a period of rapid growth as regional trade barriers are lowered and the expected increases in disposable income across the region materialise.

##### *Significant barriers to entry to new entrants*

The Group has spent many years and invested significant capital to acquire its land, develop its plantations and grow its business. A new entrant would require access to a sizeable tract of land in a location suitable for citrus cultivation, which would likely involve lengthy negotiations with numerous

<sup>1</sup> Source: USDA Foreign Agricultural Service, GAIN Report (May 2004).

local government agencies and tenants to secure the leases and land use rights needed to operate a plantation. Moreover, even if a new entrant managed to secure sufficient land suitable for citrus cultivation, the development of a plantation would be a long and expensive process. Finally, after any plantation had been developed and orange tree saplings had been planted, at least a further four years would be required before the trees began producing marketable fruit on a commercial scale. Accordingly, for the above reasons, significant time and capital resources are required to acquire the requisite land agreements and rights and support plantation development through to profitability. The Directors believe that the Group's size and success cannot be easily replicated by potential competitors in the PRC.

#### ***Scale advantage over local competitors***

The PRC orange market currently is highly fragmented. To the Directors' knowledge, the Group is several times larger than its next closest domestic competitor in terms of both land area under cultivation and production volume. The Directors believe this scale provides the Group with numerous competitive advantages, including the resources to ensure high quality produce and a better ability to provide a secure and reliable supply of oranges to large customers. In addition, the Directors believe that the Group's scale and increasingly nationwide exposure will also support the development of a national brand and yield inherent sales and marketing advantages.

#### ***Pricing and cost advantage over imports***

The Directors believe that demand for high quality oranges (in particular, US varieties) exceeds supply in the PRC by a considerable margin. At present, the Group prices its products between the cheaper indigenous orange species and the more expensive imported brands. Producers of oranges outside the PRC generally have higher costs than the Group, resulting principally from a disparity in labour costs, transportation costs and taxes.

To protect their orange trees from damage and to help ensure higher quality produce, orange producers, including the Group, generally harvest their oranges by hand. As a consequence, orange plantations require access to large pools of agricultural labour. The amounts paid for labour by plantations is generally lower in the PRC than in more developed countries, where equivalent labour costs are higher.

In addition, because of the significant distance of the PRC from the other major orange producers, the costs that must be incurred to import oranges from the United States, Central and South America and Europe are high, thus placing the Group in a strong competitive position in comparison with importers of similar oranges into the PRC.

Finally, imports to the PRC currently are subject to both a tariff of 11 per cent and VAT of 13 per cent, neither of which, the Group incurs, thus providing it with a further pricing advantage.

The Directors believe that its lower costs provide the Group with a competitive advantage over importers of oranges to the PRC and, potentially, over non-PRC based producers in the worldwide orange market.

#### ***Experienced management***

The Company's management has proven knowledge and expertise in the agricultural industry. Certain members of senior management have worked for the US fruit juice company which previously operated the Hepu Plantation and have also gained valuable relevant experience in Florida. In addition, given the experience gained at both of the Group's plantations, the Directors believe that the Group's management has the experience and local knowledge necessary for the successful development of the Hunan Plantation.

#### **Strategy**

The Group's primary focus is selling quality oranges at an affordable price and strengthening its position as a leading orange producer in the PRC. The Group's strategy comprises:

- increasing volume through higher production levels and sourcing from third parties;
- building a national brand in the PRC;
- increasing profitability by growing sales to supermarkets; and
- expanding vertically by developing juicing and nursery businesses.

### ***Increasing volume through higher production levels and sourcing from third parties***

The Group intends to increase production volume, as the Directors believe that there is likely to be significant and continuing demand in the PRC for high quality oranges. With increased production volume, together with additional sourcing from third parties, the Group aims to enhance its market share in what is currently a highly fragmented domestic market.

The Directors anticipate that growth in production volume from the Hepu Plantation will continue, driven by the increasing maturity of the existing trees, but will be more limited than in recent years, as the trees were on average around 10 years old as at 31 December 2006. A key growth driver in the short term will be commercial scale production from the Xinfeng Plantation, which the Directors expect to commence in November 2007 and then to increase as the plantation's 1.6 million trees reach fruit-bearing age and mature to reach maximum productivity. Subject to the execution of a definitive investment agreement with the Hunan Government and the finalising of the requisite leases, and provided construction begins in the third quarter of 2007, the Directors expect that the Hunan Plantation will secure long-term growth in the Group's production volume, with commercial production targeted to commence around 2012.

To meet future demand, which the Directors anticipate will continue to exceed the Group's production capacity, the Group (and its associated fruit trading joint venture, Asian Fruits Trading) will continue to explore opportunities to source oranges from third parties. The Directors believe that these third-party sourcing operations will enable less capital intensive growth for the Group.

### ***Building a national brand in the PRC***

The Group intends to support its existing sales network by building a national brand. The Directors believe that a recognised brand is likely to enhance the Group's ability to compete in the nationwide PRC market and build a national reputation for quality. With an established national brand name, the Directors believe the Group will be in a stronger position to compete against importers with globally recognised brands and to adjust its pricing structure accordingly. The Directors believe that brand recognition will also assist in the Group's strategy of increasing sales to supermarket chains and large retailers.

### ***Increasing profitability by growing sales to supermarkets***

Selling oranges to supermarkets, rather than to certain other types of customers, generates significantly higher prices and higher profits per kilogramme. The Group has therefore been increasing the proportion of sales to supermarket chains and reducing its exposure to the sole proprietor market. The Group has supply contracts in place with four supermarket chains and is in discussions with others. The Directors are confident that additional supermarket supply contracts will be concluded in the future. The Directors' aim is to increase sales to supermarkets, as a proportion of the Group's own production, to approximately 20 per cent in the current financial year and to approximately 50 per cent by 2009.

To market more effectively to supermarket chains, the Directors are working to strengthen the Group's brand and to set up a network of regional sales offices to target this category of customer.

### ***Expanding vertically by developing juicing and nursery businesses***

The Group sees an opportunity to expand vertically and to invest in developing certain value-added processed products such as orange juice. The Directors believe that such vertical expansion will help enable the Group to maximise profit across the value chain by enabling the use of all of its undamaged produce (both grown at its plantations and sourced from third parties), including oranges too small for sales to supermarkets.

As a result of increasing prosperity and disposable income in the PRC, the Directors believe that demand for orange juice is growing, and they have been considering entering the juicing business to capitalise on this expected increase in demand. The strategy for these juicing operations is currently being finalised. The Group has already held certain discussions with potential strategic partners about juicing co-operation arrangements.

The Group also intends to develop a nursery business, growing orange tree seedlings for planting at the proposed Hunan Plantation and for sale to independent farmers. The Group has completed construction of an orange tree nursery occupying an area of approximately 10,000 square metres at the Hepu Plantation, and seedlings have been planted at the nursery. The Directors expect that the first sales of seedlings will be made in the second half of 2008 and that the Group's commercial

nursery operation will eventually be capable of producing 3 million to 4.5 million seedlings every 18 months.

In connection with the sale of seedlings, the Group plans to offer the purchasing farmer technical expertise to help ensure the quality of the oranges produced by the seedlings when grown. To enlarge its supply of oranges and help satisfy expected demand in excess of its own production capacity, and to do so at low risk and with limited capital expenditure, the Group currently intends, at the time of selling seedlings, to seek the right to purchase the oranges produced by the trees when they mature.

## **The Market**

### ***Production***

According to the United States Department of Agriculture, world citrus production in selected major producing countries in the year to November 2006 was estimated to be 72.8 million tonnes. This total consists of 47.1 million tonnes for oranges, 15.0 million for tangerines, 4.3 million for lemons, 4.0 million for grapefruit, and 2.4 million for other citrus. The largest global producers of oranges are Brazil, the United States, China, Mexico and Spain, with China's production growing significantly since 1980. In the United States, the production of oranges has been hampered over the past two years by Hurricane Wilma devastating parts of Florida in 2005 and by a severe frost in California in early 2007.

According to the United States Department of Agriculture, Chinese orange production increased by nearly 5 per cent in the year to November 2006, to approximately 4.5 million tonnes, and is forecast to grow by a further 8 per cent, to 4.8 million tonnes, in the year to November 2007.<sup>2</sup> According to the USDA, Chinese production is expected to increase significantly by 2010, in particular in Jiangxi and Chongqing.

There are no official statistics relating to the market share of the major companies in the orange growing industry in the PRC. Although, based on their experience in the market, the Directors believe the Group is the single largest orange producer in the PRC, the Group's orange output represents a relatively small share of the total PRC orange growing industry. The Group's annual output for the year ended 30 June 2006 was approximately 0.1 million tonnes, while the total output of the PRC orange industry was approximately 4.5 million tonnes in 2006. The Group's output thus represents only approximately 2.5 per cent of the orange industry in the PRC, highlighting the degree to which the domestic market is fragmented.

The Directors believe that the Group's production represents a materially higher percentage of high quality oranges produced in the PRC than it does in relation to the production of all oranges in the PRC.

### ***PRC Demand***

According to a report by McKinsey, China will become the world's third largest consumer market by 2025. By that time, McKinsey predicts that 59 per cent of Chinese residents will live in cities and aggregate urban disposable income will have reached RMB22.6 trillion, up from RMB4.8 trillion in 2005.<sup>3</sup> The Directors believe that as disposable income increases, demand for the Group's quality oranges is likely to increase.

The domestic consumption of oranges in the PRC is estimated to have increased from approximately 3.6 million tonnes in the 12 months to November 2003 to approximately 4.4 million tonnes in the 12 months to November 2006 and, in the course of 2006, was forecast to reach approximately 4.7 million tonnes in the 12 months to November 2007.<sup>4</sup> Assuming a population of approximately 1.3 billion people in 2006, this forecast would mean annual orange consumption per capita in the PRC of approximately 3.6 kg in 2006. Despite the recent increases, the annual consumption of oranges per capita in the PRC remains significantly lower than in many developed markets such as the United States, where per capita consumption stood at 29.7 kg in 2005.

Citrus fruit cannot be stored for a long time without modern storage facilities and post-harvest treatment, so most locally produced citrus is consumed between October and February, the months during and immediately following which oranges are typically harvested in the PRC. With the growing number of supermarkets in urban areas, however, there is increasing demand for fruit

<sup>2</sup> Source: USDA Foreign Agricultural Service, GAIN Report (May 2006); USDA Special Feature Article (February 2006).

<sup>3</sup> Source: "From 'Made in China' to 'Sold in China': The rise of the Chinese urban consumer", McKinsey Global Institutes (November 2006).

<sup>4</sup> GAIN Report, p. 13.

throughout the year. The USDA has noted that the expansion of supermarkets as a result of urbanisation, coupled with food safety concerns, has boosted fruit consumption in the more reliable retail venues, and the purchasing of fruit in urban areas has moved gradually away from wet markets and street vendors. The high quality fruit typically purchased by supermarkets is priced significantly higher than ordinary fruit, particularly outside the period from October through February. The Directors believe that the amount of high quality fruit produced in the PRC remains relatively low.

### ***Pricing***

Based on their experience with the pricing of the Group's oranges, the Directors believe that while the prices of oranges in the PRC market generally move in the same direction as prices in the world market, there is not a direct correlation between the two. Prices of oranges in the PRC have been increasing more gradually in recent years than prices in most other areas of the world. The Directors believe that orange prices in the PRC are driven by availability (specifically the amount of local production in relation to demand), the variety of oranges in question, and the appearance of the oranges. Accordingly, summer oranges tend to achieve higher prices, not only because the fruit is generally sweeter but because demand is higher while supply is lower, the oranges are usually of a US variety, and the fruit itself is more impressive in appearance and, in particular, larger in size. Over the medium-term however, the Directors believe Navel oranges produced at the Xinfeng Plantation will be of as high a quality as, and will achieve similar prices to, its Valencia summer oranges.

At present, the Group prices its oranges between the cheaper indigenous orange varieties and the more expensive imported oranges.

Producers such as the Group typically achieve higher prices where sales are made directly to supermarkets, without the expense of a wholesaler's margin. The higher prices paid by supermarkets also reflect the additional work involved in sorting, grading, packing and transporting the oranges sold to them.

### ***Competition***

The Directors believe that competitiveness in the orange industry is based on, among other things, product quality, pricing, and timeliness and reliability of delivery and that the Group competes favourably on these factors.

The Group faces competition from both domestic and overseas competitors. The domestic market is highly fragmented, and among domestic competitors, the Directors believe that the Group's substantial size, coupled with its focus on high quality produce, competitive pricing and reliability, will help to preserve its strong market position and enable it to continue to build relationships with supermarkets. The Directors believe the Group is several times larger than its next closest domestic competitor both in terms of land area under cultivation and production volume. The Directors believe that this scale provides the Group with numerous competitive advantages, including the resources to ensure high quality produce and a better ability to provide a secure and reliable supply of oranges to meet the demands of its growing number of large customers.

In comparison with most competitors importing oranges to China, the Group enjoys a number of advantages, principally lower production and transportation costs, enabling the Group to price its produce more competitively than most importers.

In addition, historically the Group has enjoyed a tax advantage, in that imported oranges have been subject to significant import duties, and foreign producers, unlike the Group, have been subject to VAT. Since 2000, the import duty on oranges has been decreasing, in particular, following the PRC's accession to the WTO and ASEAN in 2001 and 2003 respectively. These organisations promote free trade among their signatory countries and can impose regulations and tariffs on their members. In accordance with its obligations under WTO and ASEAN rules, the PRC Government has undertaken to reduce tariffs on imports in respect of oranges, lemons and grapefruits. These tariffs have fallen from 40 per cent prior to 2001 to 11 per cent in 2006. All appropriately licensed entities are now able to import oranges into the PRC, subject to these lower tariffs. In addition to the tariffs, importers are subject to import VAT at a rate of 13 per cent, a tax to which PRC producers are not subject.

While lower duties may cause the Group to face increased competition from overseas competitors operating in its home market, as it explores new overseas markets, the Group may benefit from lower import duties imposed by the signatory countries of the WTO and ASEAN.

Finally, the PRC Government has provided various financial incentives to the Group's operating companies in Hepu and Xinfeng. These incentives include reduced tax rates and other measures. Lucky Team (Hepu) enjoys preferential tax treatment, in the form of reduced tax rates or tax

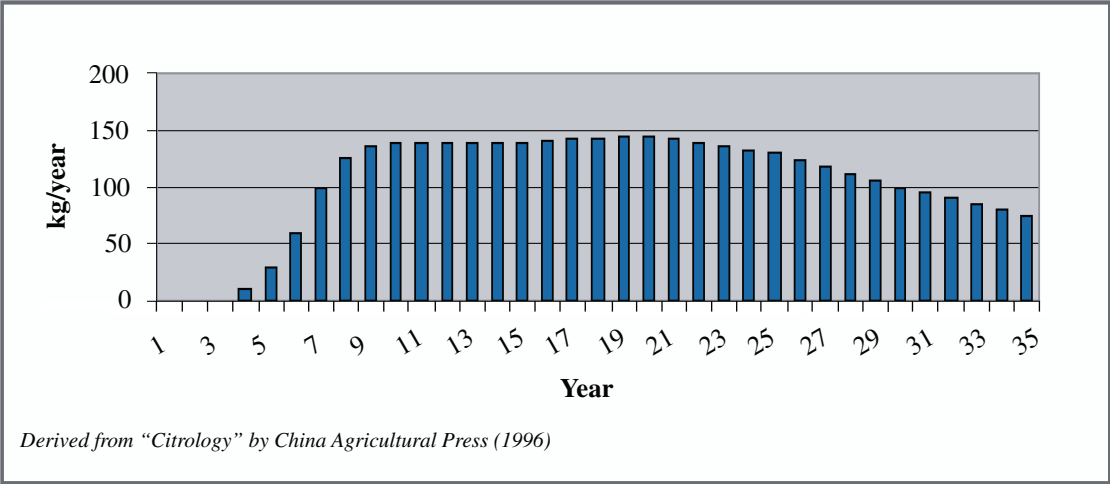
holidays, provided by the PRC Government or its local agencies or bureaux. This company benefits from a 15 per cent preferential corporate income PRC FEIT rate up to 30 June 2010 and, as a wholly-foreign owned enterprise, was exempt from FEIT for the two years ended 30 June 2002, followed by a 50 per cent reduction for the three years ended 30 June 2005. For the year ended 30 June 2006, Lucky Team (Hepu) was subject to a FEIT rate of 15 per cent. Litian (Xinfeng) will be fully exempt from FEIT during its first two profit-making years, with the following three years subject to a 15 per cent FEIT rate.

Despite the potential risk of competition from new entrants, the Directors believe that the current competitive advantages enjoyed by the Group, coupled with the significant barriers to entry, are likely to position the Group well with respect to new entrants.

**Orange trees and oranges**

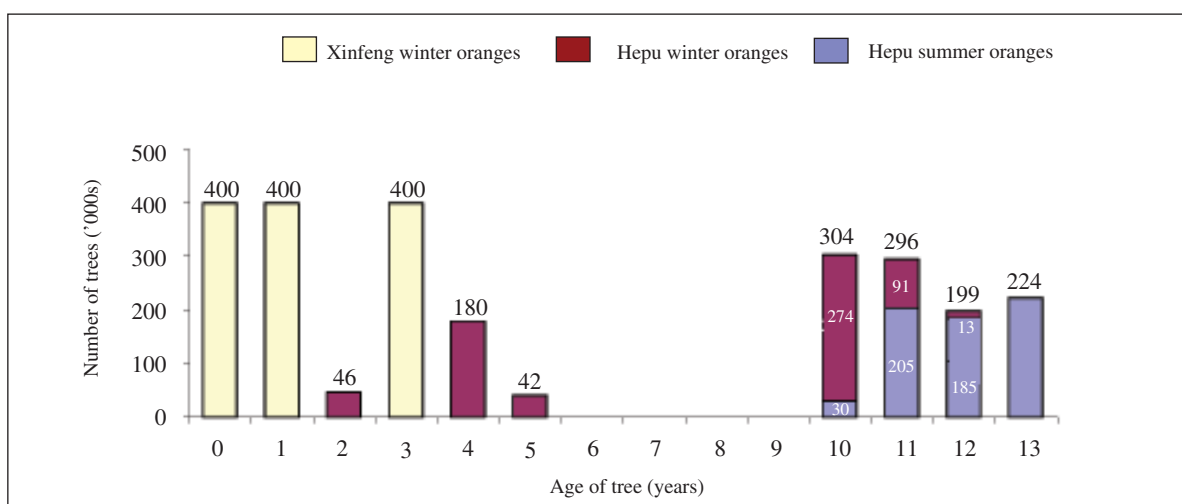
***Orange tree yields and maturity profile***

The average production life of a fruit-bearing orange tree commences four years after planting and continues for over 30 years. The yield will typically increase until full maturity, which is reached at around ten years. Thereafter, the yield will usually stabilise until the tree reaches 25 years of age, following which a gradual decline in yield is generally seen.



The Group expects to benefit from the growing maturity of its plantations. At the Hepu Plantation, the majority of the trees are currently productive, with an average age of 10 years. The increasing yield from maturing trees at the Hepu Plantation has driven the growth in the Group's production volume over the past three years. Production volume at the Hepu Plantation is projected to increase, but at a lower rate compared with previous years as the final 20 per cent of trees reach maturity. The Directors expect the Xinfeng Plantation to have its first commercial harvest in November 2007, when its first 400,000 trees reach fruit-bearing age. The Group intends to plant the final 400,000 trees at the Xinfeng Plantation during the first half of 2007, which will result in a total of 1.6 million trees of fruit-bearing age by 2011. The Directors expect this to drive increases in the Group's production volume over the medium term. The average age of the trees at the Xinfeng Plantation is only approximately 1.5 years.

The age of the trees at both plantations, as at 31 December 2006, are shown in the chart below.



Source: Company data

Note: Excludes the 400,000 trees to be planted at the Xinfeng Plantation in the first half of 2007

### Oranges

The Group cultivates and sells both winter and summer oranges. Summer oranges are generally harvested in the PRC between mid-March and the beginning of June. Winter oranges are generally harvested in the PRC between October and December. The Group's summer oranges and the Hamlin and Pineapple species of winter orange were brought to the PRC from the United States, while the Hong Jiang is a species native to the PRC. In general, the US varieties of orange are larger in size than PRC native varieties, while indigenous PRC oranges tend to be sweeter. Since their introduction into the PRC, there has been increasing demand for the US varieties of orange due to their perceived higher quality. The Group's Hefu Plantation produces both winter and summer oranges, while the Xinfeng Plantation will produce exclusively Navel oranges (a type of winter orange originating from the United States).

The Directors anticipate that the Hunan Plantation will grow exclusively Valencia oranges. The Group intends to plant a combination of early- and late-ripening summer Valencia orange trees at the Hunan Plantation. The Directors expect this combination to extend the Group's harvest periods into January, February and late June, enabling the Group to supply oranges during periods of unmet demand and reducing the seasonality of the Group's revenue.

### The Group's business

Currently, substantially all of the oranges that are sold by the Group are grown at the Hefu Plantation. Trial production at the Xinfeng Plantation began in November 2006, yielding approximately 3,652 tonnes of winter oranges by 31 December 2006. The Directors expect commercial production at the Xinfeng Plantation to commence in November 2007.

### Plantations

The location of an orange plantation has a significant bearing on the productivity of its orange trees and on the quality of the oranges produced by those trees. The Directors believe that the locations of the Group's existing and proposed plantations provide favourable conditions conducive to growing oranges, including:

- favourable climate conditions, such as mild weather, good levels of sunshine and high humidity, all of which help to provide a long growing season for the Group's produce;
- large arable areas, which allow sufficient growing space and efficient use of equipment;
- an ecological environment that encourages the growth of trees and facilitates compliance with CGFDC "green food" production standards;
- natural protection from adverse weather conditions, minimising the risks and effects of natural disasters, such as droughts, floods, typhoons, hailstorms and rainstorms; and

- convenient access to transportation networks, which facilitates the supply of raw materials and equipment to the plantations and the delivery of oranges to customers.

Set out below is an illustration showing the location of the Guangxi Zhuang Autonomous Region, where the Hepu Plantation is located; Jiangxi province, where the Xinfeng Plantation is located; Hunan province, the site of the Group's proposed third plantation; Hubei, from where the Group intends to source additional oranges from third parties; and Hong Kong, the base of the Group's fruit trading joint venture, Asian Fruits.



### The Hepu Plantation

The Hepu Plantation is located approximately 20 km from the southern coastal city of Beihai in the Guangxi Zhuang Autonomous Region. The plantation occupies approximately 30.9 sq. km of land and has been producing fruit commercially since 2000. The Hepu Plantation is fully developed, with more than 1.2 million orange trees planted, approximately 601,000 of which produce winter oranges and 644,000 of which produce summer oranges.

The following table shows the results of recent harvests at the Hepu Plantation and the rate of growth in production:

	12 months to 30 June		
	2006	2005	2004
Summer oranges (tonnes)	70,597	61,053	54,954
<i>Growth over preceding year</i>	16%	11%	—
Winter oranges (tonnes)	40,604	35,924	28,216
<i>Growth over preceding year</i>	13%	27%	—
Total production (tonnes)	111,201	96,977	83,170
<i>Growth</i>	15%	17%	—

The growth in production from 2005 to 2006 was due to the general increase in the maturity of the orange trees in the Hepu Plantation, including the fact that approximately 220,000 winter orange trees reached fruit-bearing age, and growth in expertise and efficiency of working practices.

Since 31 December 2006, the Group has launched a trial run of a replanting programme which includes replacement of certain existing species with more advanced and better quality varieties that have stronger resistance against diseases and higher yield. As at 21 March 2007, 37,542 winter orange trees (which accounted for approximately 2.3 per cent of the total number of fruit-bearing trees as at 31 December 2006) have been removed and this area will be replanted with the new species according to the replanting programme. It is the Group's intention to implement the partial replanting programme step-by-step in order to optimise its impact on the Group's overall financial position. Based on the results of the research carried out by the Group, the Directors are confident that the replanting programme will bring long term economic benefits to it.

#### ***The Xinfeng Plantation***

The Xinfeng Plantation is located in Jiangxi province in the southeast of the PRC. The Group has leased a total of approximately 37.1 sq. km of land to develop the Xinfeng Plantation, and, as at 31 December 2006, had developed approximately 27.8 sq. km of this land, with approximately 1.2 million winter orange trees planted.

The terraced terrain of the Xinfeng Plantation makes it possible to plant trees more densely than at the Hepu Plantation. Since work on the Xinfeng Plantation began, the Group has continued to invest in its construction and development. In the year ended 30 June 2006, the Group invested RMB134.3 million in the development of the Xinfeng Plantation, planting 400,000 orange trees during the year, bringing the total number of trees to 1.2 million. It is expected that the final 400,000 orange trees will be planted in the current year so that, by June 2007, the Xinfeng Plantation will be fully planted, with 1.6 million orange trees. The overall project cost for the Xinfeng Plantation is expected to total approximately RMB616 million, approximately RMB130 million of which is expected to be incurred in the financial year ending 30 June 2007 (and of which, RMB58 million has already been incurred).

Trial production began at the Xinfeng Plantation in November 2006, yielding approximately 3,652 tonnes of winter oranges by 31 December 2006. The Directors expect the plantation to have its first commercial harvest in November 2007, with all trees expected to reach fruit-bearing age by 2011. As the Xinfeng Plantation begins to produce more substantial quantities of oranges, it will require additional resources, including technical and marketing staff as well as field workers. Initially, the Group intends to draw on existing expertise and resources at the Hepu Plantation to meet these demands. Due to the lower level of mechanisation possible given the terraced terrain, the Group intends to employ, at any given time, over 1,000 workers, significantly more than at the Hepu Plantation.

#### ***The Hunan Plantation***

To secure further supplies of oranges to help meet expected increases in demand, the Group has identified Dao County in Hunan province as a suitable site for the proposed development of a third orange plantation. The Group has signed a memorandum of understanding with the Hunan Government regarding the plans for a plantation, and has reached agreement in principle on the terms of a proposed investment agreement that would grant the Group, among other things, the right to negotiate agreements directly with the local landowners for the lease of approximately 35 sq. km of land.

Provided the Company is able to successfully conclude a definitive investment agreement with the Hunan Government and lease agreements with the local landowners, the Directors expect the site to be fully developed, with approximately 2.4 million orange trees, by 2010. If the development of the Hunan Plantation proceeds on schedule, the Directors expect that the plantation's first commercial harvest will take place in 2012. The Directors currently estimate that the development of the Hunan Plantation in the three years to June 2010 is likely to cost approximately £35 million (RMB537,897,500).

Hunan province is one of the largest citrus producing provinces in China, with an annual citrus output of approximately 2 million tonnes. Hunan province borders the Group's other operational hubs: Jiangxi to the east and Guangxi to the southwest. The province also borders Hubei in the north, from where the Group has third-party sourcing arrangements in place.

Having undertaken a feasibility study, the Group intends to develop the plantation and plant approximately 2.4 million orange trees over a period of three years, with plans to plant 0.7 million trees in the year to June 2008, 1 million trees in the year to June 2009 and the final 0.7 million trees in the year to June 2010. Assuming the development of the proposed plantation proceeds as planned, the Directors expect the Hunan Plantation's first harvest to take place in 2012.

The Group intends to plant a combination of early- and late-ripening summer Valencia orange trees at the Hunan Plantation. The Directors expect this combination to extend the Group's harvest periods into January, February and late June, enabling the Group to supply oranges during periods of unmet demand and reducing the seasonality of the Group's revenue.

Dao County, where the plantation would be located, is an area in the south of Hunan province that enjoys comparatively fertile soil and favourable conditions particularly conducive to the production of summer oranges. Dao County offers good transport links, with major expressways spanning its length and breadth. In addition, several motorways are planned that will pass through Dao County and extend to Shenzhen and Hong Kong.

The development of a plantation in Hunan province will create, along with the Hepu Plantation and Xinfeng Plantation, a "three area alliance" as the base for the Group's orange production. Three areas have different meteorological and topographical profiles which the Directors believe will complement one another and assist the Group in developing the best methods for the cultivation, selection and sale of oranges.

#### ***Summary of lease terms for plantations***

The parcels of land on which both the Hepu Plantation and Xinfeng Plantation are located are leased directly or indirectly from, or on behalf of, various independent legal land owners, comprising mainly local "production teams" and "village committees". At the Hepu Plantation, the Group entered into 88 fifty-year leases in 2000 directly with these teams and committees. At the Xinfeng Plantation, the Group entered into the Xinfeng Lease in 2002 with the Xinfeng Government which, on behalf of the relevant legal owners, agreed to lease the land to the Group for a term of 50 years. A more detailed explanation of the lease agreements can be found in paragraph 10 of Part VII of this document. At this stage, the Group has no leases in place in relation to land at the Hunan Plantation.

#### ***Third-party sourcing and the Hubei operation***

A key part of the Group's strategy is to seek low capital intensive options for sourcing quality oranges to meet the anticipated increase in demand beyond the Group's production capacity.

To this end, the Group has established a subsidiary, Lucky Team Biotech Development (Zigui) Limited, in Hubei province to source oranges from third parties in order to supplement production from its own plantations. Although no oranges have been sourced by the Group's Hubei operation to date, the Directors expect that the Group will begin doing so as and when required to meet supermarket or juicing demand that it is unable to satisfy through its own production. Furthermore, the Group is considering using this additional source of oranges available to it in its planned juicing strategy.

#### ***Xinfeng Development and the Orange Processing Centre***

The Group is developing two parcels of land occupying a total area of approximately 0.2 sq. km in the Xinfeng County Industrial Park, near the Xinfeng Plantation for the establishment of a wholesalers' market and an orange processing centre (the "Xinfeng Development"). The project involves the construction of approximately 150,000 sq. metres of commercial units, together with a car park, a block of serviced apartments and other ancillary services. A total of around 650 commercial units are expected to be sold to local producers, who will use the units to sell their produce.

The Directors intend to undertake the development project in three phases. The Directors expect the first phase to be completed in the second quarter of 2007. Pre-sales of commercial units at the Xinfeng Development involve the execution of conditional contracts and the payment of the full purchase price. The pre-sale of the units, numbering 250, in the first phase is expected to commence around the end of March 2007. Both the second and third phases, together anticipated to comprise a further 400 units, are subject to the successful amendment of existing land title certificates, and work will only commence on these phases when the Directors are satisfied that the first phase has been a success.

The orange processing centre will comprise warehouses, refrigerated storage and a centre for cleaning, grading, packaging and waxing oranges (the "Orange Processing Centre") and will be used by the Xinfeng Plantation. The Directors expect that the planned refrigeration unit at the Orange Processing Centre will enable the Group to supply oranges from the Xinfeng Plantation outside of the winter harvest period. The Group intends to complete this centre in the financial year ending 30 June 2009 irrespective of the success of the first two phases.

On 26 March 2007, the Group signed a contract with Nan Chen Ji Real Estate Development Limited (“Nan Chen Ji”), a property development company, pursuant to which Nan Chen is responsible for the management, operation and sale of units at the Xinfeng Development. In return for its services, Nan Chen Ji will receive a share of the Xinfeng Development’s profit. This contract replaced the agreement entered into by the parties in February 2006. Further detail on the contract with Nan Chen Ji can be found in paragraph 8 of Part VII of this document.

In addition to a possible property-related profit, the Directors expect the Group to derive a variety of long-term benefits from the Xinfeng Development. Through the agricultural trade and wholesalers’ market, the Directors believe that the Group will have contact with some of the best orange growers in the region, which could lead to valuable sourcing opportunities to help meet the continuing growth in demand. The centre will also provide the Group with access to companies throughout China that are expected to make use of this new market facility as buyers.

Depending on the success of the Xinfeng Development, the Directors may consider developing similar wholesalers’ markets in other provinces.

### ***Asian Fruits Trading***

The Company established Asian Fruits in 2005 as a joint venture with Calfruits. Asian Fruits Trading, a wholly-owned subsidiary of Asian Fruits, is a fruit trading company that currently sources oranges from farmers in Jiangxi province for export. Through Asian Fruits Trading, the Group has been able to benefit from Calfruits’ industry relationships in accessing significant potential international and Hong Kong-based customers.

At present, all of the Group’s oranges are sold within the PRC. The Directors believe that, even with increases in the Group’s production volume, the level of demand in the PRC will remain sufficiently high to enable the Group to continue selling all of its oranges domestically. Nevertheless, the Group is actively pursuing overseas customers, both as a means of diversifying its customer base and to target high-margin sales to large customers. Through Asian Fruits Trading, the Group has reached agreement to sell oranges on a trial basis to a United Kingdom supermarket supplier.

The Directors believe that there will be additional opportunities to expand the Group’s sales into other countries in Asia over time and that this expansion may be aided by the strength of Calfruits’ industry relationships.

To help ensure the high quality of the oranges sourced by Asian Fruits, they are quality control tested at a factory in Guangdong province, which is owned by Asian Fruits Trading, where they are also graded and packed. In 2007, Asian Fruits received EurepGAP certification. EurepGAP is the European fresh produce food standard set in place by the leading food retailers to give customers assurance of quality. This demonstrates that the Group has met the stringent technical requirements needed to gain the certificate ranging from use of fertiliser, irrigation methods and hygiene levels, to employee training and the assessment of the environmental impact of farming. The accreditation of the EurepGAP certificate allows the Group to potentially export to European customers in the future, and the Directors believe that this is a major milestone for the Group.

The Company owns 46 per cent of Asian Fruits, and Tong Mei Lin, the daughter of Mr Tong Wang Chow (the Chairman of the Group), owns 5 per cent. The board of directors of Asian Fruits comprises two representatives of the Group (Mr Tong Hung Shun (Mr Tong Wang Chow’s brother) and Mr Cheung Wai Sun, an Executive Director), Tong Mei Lin and two representatives of Calfruits. Each Asian Fruits director is remunerated by the company he or she represents.

The terms of the joint venture arrangement are set out in a joint venture agreement between the Company and Calfruits dated 26 March 2007. Further details of this agreement can be found in paragraph 8 of Part VII of this document.

### ***Research, development and nurseries***

The Directors believe that investment in research and development is crucial to the long-term development of the Group. Recommendations from the Group’s research and development team assist the Group in continuing to develop and grow high quality oranges and to increase the yield of its orange trees.

The Group’s research and development team is located at the Hepu Plantation. This team is responsible for conducting quality control checks on raw materials, seedlings, rootstock and oranges and for further research and development projects, as well as the grafting and development of seedlings for the Group’s proposed nursery business. Major research and development projects that

the team has undertaken in the past include the development of improved species of oranges, development of techniques for cross-breeding of selected species, and application of “green food” and organic plantation techniques.

The Group’s research and development team has also collaborated with researchers from various government academic and research institutions, including the China Citrus Institute, Guangxi Citrus Research Institute and the Guangdong Entomology Research Institute, to undertake specific research and development projects. Such projects have included research on CGFDC “green food” production techniques and measures to protect against plant disease for summer oranges.

As part of its strategy to expand vertically, the Group also intends to develop a nursery business, growing orange tree seedlings for planting at the proposed Hunan Plantation and for sale to independent farmers. The Group has completed the construction of an orange tree nursery occupying an area of approximately 10,000 square metres at the Hepu Plantation, and seedlings have been planted at the nursery. The Directors believe that the Group’s commercial nursery operation will be capable of producing 3 million to 4.5 million seedlings every 18 months and that the first sales of seedlings will take place in the second half of 2008.

In connection with the sale of seedlings, the Group plans to offer the purchasing farmer technical expertise to help ensure the quality of the oranges produced by the seedlings when grown. To enlarge its supply of oranges and help satisfy expected demand in excess of its own production capacity, and to do so at low risk and with limited capital expenditure, the Group currently intends, at the time of selling seedlings, to seek the right to purchase the oranges produced by the trees when they mature.

In the nursery at the Hepu Plantation, new orange trees are cultivated by grafting their shoots onto the rootstock of a different species with a view to facilitating better growth. The selection of rootstock depends on a variety of factors including the weather, climate and soil. Additional characteristics that the Group considers in selecting its new trees include the ability to resist disease, the time required to bear fruit and the tree size (which ideally should be sufficiently compact to ensure easy harvesting). After the grafting process is carried out, the seedlings will generally be grown in a controlled environment for up to two years, to a height of approximately two feet, before they are planted.

The Directors believe that the provincial government in Guangxi is considering establishing or encouraging the establishment of a number of orange tree nurseries in the region in the near term and that this may lead to the planting of up to 50 million new trees.

The Group intends to use its nursery at Hepu to meet its own requirements for seedlings to populate the proposed Hunan Plantation. After the Hepu nursery has begun commercial operations, the Directors may develop further nurseries, potentially including one in Hubei province.

## **Operations**

### ***Harvesting process***

If oranges are harvested from trees mechanically, there is a greater risk that they and the trees will be bruised or damaged. Damaged fruit and trees are far more susceptible to attack by fungus and disease. To reduce the risk of damage to the Group’s trees and oranges during the harvesting process, all of the Group’s oranges are picked by hand.

Asian Citrus relies on a large pool of part-time workers. The Directors estimate that the Group typically recruits between 1,000 and 1,200 part-time orange picking staff at the Hepu Plantation during its harvesting periods, in addition to employing 340 full-time farming and field management staff. Due to the low level of mechanisation as a result of the terraced terrain at the Xinfeng Plantation, the Directors expect that the Xinfeng Plantation will require in excess of 1,000 workers at any given time.

When requested by customers, the Group’s workers can wash and dry the oranges after picking and can wax them with a coating containing fungicides and pesticides, which helps reduce the risk of damage while in transit.

### ***Customers***

The Group sells its oranges to supermarket chains, corporate customers, wholesalers and sole proprietors in the PRC.

- **Supermarket customers** include regional supermarket chains and account for an increasing proportion of the Group's sales. For the year ended 30 June 2006, supermarket customers accounted for 16.1 per cent of the Group's turnover.
- **Corporate customers** comprise larger-scale wholesalers that distribute oranges to a variety of organisations including large retailers. For the year ended 30 June 2006, corporate customers accounted for 41.9 per cent of the Group's turnover.
- **Wholesale customers** are typically smaller-scale companies that distribute oranges to wholesale markets, usually selling to small retailers. For the year ended 30 June 2006, wholesale customers accounted for 38.3 per cent of the the Group's turnover.
- **Sole proprietors**, who are also wholesalers but typically have no fixed location, sell to a variety of wholesale markets within the PRC. For the year ended 30 June 2006, sole proprietors accounted for 3.7 per cent of the Group's turnover.

From the year ended 30 June 2004 to the year ended 30 June 2006, the percentage of the Group's turnover accounted for by sales to supermarkets increased from zero to 16.1 per cent, while the percentage of turnover accounted for by sales to sole proprietors, for the corresponding period, decreased from approximately 30.7 per cent to 3.7 per cent. These shifts reflect the Group's strategy of increasing its profit and nationwide exposure through higher margin sales to supermarket chains and reducing lower priced sales to sole proprietors.

The Group has supply contracts in place with Guihai Highways Guangxi Xingtong Services Company, which operates 168 convenience stores and service stations in the Guangxi Zhuang Autonomous Region, and with Guangxi Yonghao Supermarket Company Limited, a supermarket chain also based in the Guangxi Zhuang Autonomous Region. Under these two contracts, the Company will supply 23,000 tonnes of oranges between October 2006 and June 2007, equivalent to approximately 25 per cent of the Group's total production output for the year ended 30 June 2006.

#### ***Sales and marketing***

The Group's sales team currently comprises approximately 65 staff, principally based at the Hepu Plantation, divided into four teams, covering Eastern, Southern, Western and Central PRC. The sales teams, who receive commissions based on the level of sales, are responsible for developing business relationships with existing clients and for establishing new relationships with potential clients. In addition, the sales teams are responsible for providing market research information on the price of oranges and for reporting these to senior management. To enhance product visibility and help build brand awareness, advertising and promotional programmes are employed in the period immediately prior to each harvest.

The Directors believe that demand for high quality oranges tends to be concentrated in the larger and more affluent cities of the PRC. Accordingly, over the next three years, the Group intends to establish an extensive sales and marketing network in the PRC to capture a larger share of this market. The Group has established an office in Shanghai and intends to establish sales offices in Shenzhen, Guangzhou and Fuzhou over the next 12 months. Between 2008 and 2010, the Group intends to open further sales offices in cities such as Beijing and Tianjin. These sales offices will be largely focused on providing customer service to regional and national supermarket chains.

#### ***Distribution***

The increase in sales to supermarket chains has required the Group to put in place distribution arrangements to deliver its oranges to this type of customer. The Group outsources this service to Nanning Station Packaging and Railway Transportation Company, with which a one-year rolling contract was signed on 12 September 2005. Although the Group bears the distribution costs in relation to sales to supermarkets, these costs are currently offset by the higher average selling prices achieved when supplying this type of customer. The Group expects to continue to outsource the large-scale distribution of its products for the foreseeable future.

#### ***Raw materials***

The key raw materials purchased on an ongoing basis by the Group are fertilisers, pesticides and packaging materials. Some of these are imported products, but the Group sources all of its materials from PRC suppliers. In common with industry practice in the PRC, the Group does not have long-term contracts in place with its suppliers and typically signs purchase contracts on a year-by-year basis. The Directors believe that there are over a hundred fertiliser and pesticide suppliers in the Guangxi Zhuang Autonomous Region and neighbouring Guangdong Province, and the Directors

confirm that the Group has developed a good relationship with approximately eight of these suppliers. Three suppliers are typically invited to provide quotes for raw materials on a regular basis. The Group receives credit terms of between 15 and 30 days from its key suppliers.

As at the date of this document, the Group purchases its fertiliser from Zhangzhou Chaoda and Weizhou Chaoda, companies related to Chaoda, which is a significant shareholder of the Group. In the year ended 30 June 2006, these purchases amounted to RMB20.4 million. The Directors believe that all of the purchase contracts with Zhangzhou Chaoda and Weizhou Chaoda are on arm's-length terms and were entered into, following a competitive tender process, on the basis of their competitive price and the quality of the product. Additional information on the Group's relationship with Chaoda is set out in paragraph 4.5 of Part VII of this document. The terms of the Relationship Agreement between the Group and Chaoda are summarised in paragraph 8 of Part VII of this document.

Apart from the Chaoda entities, the Directors can confirm that no supplier has a financial interest in the Group.

### **Interim results**

On 21 March 2007, the Company announced its interim results for the six months ended 31 December 2006. Key highlights of these results, in comparison with the period a year earlier, are:

- an increase of 23 per cent in total output, to 49,871 tonnes;
- an increase in turnover of 39.3 per cent to RMB147.1 million (£96.1 million); and
- earnings per Ordinary Share (excluding gains on biological assets) of RMB0.64, an increase of 16.4 per cent.

The Group's turnover was RMB147.1 million in the six months to 31 December 2006, compared with RMB105.6 million in the same period in 2005. The 39.2 per cent year-on-year growth in turnover was the result of an increase of approximately 23.0 per cent in the Group's production volume, combined with a 13.5 per cent increase in average selling prices of the oranges to both wholesale customers and supermarkets. For the six months ended 31 December 2006, the proportion of the Group's turnover accounted for by sales to supermarkets increased to 29.3 per cent from 7.9 per cent for the comparable period in 2005. The Directors expect that this proportion will continue to increase as the Group secures more supermarket contracts in the future.

The gross margin of the Hepu Plantation increased slightly from approximately 60.6 per cent for the six months ended 31 December 2005 to approximately 61.6 per cent for the six months ended 31 December 2006, benefiting from the higher average selling price for supermarket sales and tight cost controls implemented by the Group. The Xinfeng Plantation was not profitable in 2006 as the plantation was still in trial production. However, over the medium term, as production volume increases and economies of scale are achieved, the Directors believe that the Xinfeng Plantation will start to demonstrate its growth potential. Combining the two plantations, the Group's gross margin decreased from 60.6 per cent for the six months ended 31 December 2005 to approximately 55.5 per cent for the six months ended 31 December 2006.

The cost of production increased from approximately RMB41.6 million in the 2005 period to approximately RMB65.5 million in the last six months principally because of the increase in consumption of raw materials accompanying the growth of the Group's production volume. In addition to this, the price of fertiliser, one of the Group's major raw materials, has increased by around 5-10 per cent in the fiscal period. As a result, the average unit cost of oranges from the Hepu Plantation increased to approximately RMB1.14 per kg (2005: RMB1.02 per kg).

### **Outlook**

In the six months to 31 December 2006, the Group has increased its presence in the retail market by securing more substantial supplier contracts with several supermarket chains in the PRC. In addition to maintaining momentum in building on supermarket relationships, the Group will also be looking to expand its business into value-added products to benefit from the expected significant growth in demand. As a result of the bad weather in California in January 2007 and the corresponding shortage of orange supply in the market, the Group has increased the selling price of the summer harvest in 2007 by approximately 5.8 per cent. The Directors believe that the Group has strong growth prospects, driven by increasing demand for high quality oranges in the PRC and are confident that Asian Citrus will continue to deliver good value to its Shareholders.

**Dividend policy**

In the 12 months to 30 June 2006, the Company paid a dividend of RMB0.62 per Ordinary Share.

For the year ending 30 June 2007, the Group expects to have a dividend payout ratio similar to the ratio for the previous year and, in any event, to pay a dividend per share of no less than that paid in the year ended 30 June 2006.

**Additional listing**

The Directors have agreed in principle to seek an additional listing of the Ordinary Shares on the Main Board of the Hong Kong Stock Exchange and are working with Cazenove Asia to assess the Group's eligibility for such a listing.

**Directors and employees**

The Board consists of five executive directors and six non-executive directors, of whom four are considered independent.

**Board composition***Executive Directors***Mr Tong Wang Chow, Executive Chairman and CEO**

Mr Tong Wang Chow, age 68, is the founder of the Group. Mr Tong is also the general manager of both the Hepu Plantation and the Xinfeng Plantation. He is responsible for the overall strategic planning and direction of the Group. Mr Tong has over 20 years of business development experience in the PRC, principally in the brewing and transportation industries. He is a member of the CPPCC Guangdong Province Shantou Municipal Committee, the Chairman of Hong Kong Shantou Merchants Association, a director of the Chinese Manufacturers Association of Hong Kong, a director of the Chinese General Chamber of Commerce and the vice-chairman of the Federation of Hong Kong Chiu Chow Community Organisations. He is also the Honorary Consul of Mongolia in the HKSAR and a member of China Citrus Society.

**Mr Tong Hung Wai, Tommy, Sales and Marketing Director**

Mr Tong Hung Wai, Tommy, age 38, is a co-founder of the Group. He is responsible for the sales and marketing of the Group. Mr Tong obtained a bachelor's degree in international business in 1996 from Queensland University of Technology, Australia. He is the son of Mr Tong Wang Chow.

**Mr Cheung Wai Sun, Executive Director**

Mr Cheung Wai Sun, age 48, joined the Board in 2004. Following the Company's listing on AIM in 2005, Mr Cheung became a full-time employee of the Group and has responsibility for the Group's sales and marketing in Western China. He also represents the Company on the board of the Asian Fruits joint venture. Mr Cheung joined Chaoda Vegetable & Fruits Limited ("Chaoda Vegetable") in 2000 and became the deputy general manager of Chaoda Vegetable, a subsidiary of Chaoda Modern Agriculture (Holdings) Limited, a major shareholder of the Company. Mr Cheung has over 25 years of experience in trading and marketing businesses and has gained extensive knowledge and experience in the agricultural business in the PRC by virtue of his former position in Chaoda Vegetable.

**Mr Pang Yi, Deputy General Manager of the Hepu Plantation**

Mr Pang Yi, age 37, joined the Group in 2000 and is responsible for the Group's overall operations and management in the PRC. Previously, Mr Pang had been appointed by the Guangxi Foreign Trade and Economic Cooperation Department as an investment service supervisor of the Guangxi Zhuang Autonomous Region.

**Mr Sung Chi Keung, Finance Director and Company Secretary**

Mr Sung Chi Keung, age 31, was appointed to the Board on 15 January 2007. Mr Sung holds a bachelor's degree in business administration, with a major in accountancy, from the Chinese University of Hong Kong and a master's degree in corporate finance from Hong Kong Polytechnic University. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. Mr Sung has over nine years of experience in financial management, accounting, taxation, auditing and corporate finance and held

a variety of positions in international accounting firms and a corporate finance firm before joining the Group in August 2004.

#### *Non-Executive Directors*

##### **Mr Ip Chi Ming**

Mr Ip Chi Ming, age 45, is a non-executive director who joined the Group in August 2001. Mr Ip is also an executive director of Chaoda and the general manager of Chaoda Vegetable. Mr Ip has over 17 years of experience in trading and marketing in the food products industry, as well as extensive experience in corporate strategic planning, overall management, business development and sales and marketing.

##### **Mr Ma Chiu Cheung, Andrew**

Mr Ma Chiu Cheung, Andrew, age 65, joined the Group in July 2004. Mr Ma is a director of Andrew Ma DFK (CPA) Limited and Mayee Management Limited. He has more than 30 years of experience in accounting and finance. He obtained a bachelor's degree in economics from the London School of Economics and Political Science, University of London, in England. Mr Ma is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Directors and the Taxation Institute of Hong Kong. He was formerly the president of the Hong Kong Federation of Youth Groups and vice-president of Hong Kong Chiu Chow Chamber of Commerce Limited. Mr Ma is currently an independent non-executive director of Tanrich Finance Holdings Limited, the People's Insurance Company of China (Hong Kong) Limited, Asia Financial Holdings Limited and Peaktop International Holdings Limited.

##### **Dr Hon Lui Ming Wah, SBS JP**

Dr Hon Lui Ming Wah, SBS JP, age 68, joined the Group in June 2004. Dr Lui is an industrialist serving as the honorary chairman of the Hong Kong Electronic Industries Association and the honorary chairman of the Hong Kong Shandong Business Association. He is also an executive committee member of the Chinese Manufacturers' Association of Hong Kong, a member of the Chinese People's Political Consultative Conference, a standing committee member of the Shandong Committee of Chinese Political Consultative Conference and the vice president of the Shandong Federation of Industry and Commerce. Dr Lui was elected to the Legislative Council of Hong Kong in May 1998 for a term of two years. In the 2000 and 2004 Legislative Council elections, he was elected again for a term of four years each. He sits on the council of the Hong Kong Polytechnic University, is vice-chairman of the Hong Kong Independent Police Complaints Council and is an Advisor Professor of Shandong University. Dr Lui obtained his masters and doctorate degrees from the University of New South Wales in Australia and the University of Saskatchewan in Canada. He is currently the Managing Director of Keystone Electronics Co. Limited.

##### **Mr Yang Zhen Han**

Mr Yang Zhen Han, age 74, joined the Group in June 2004. Mr Yang obtained a bachelor's degree in chemical engineering from Shanghai Jiao-Tong University in 1953. Mr Yang is a machine-building specialist with over 30 years of experience. Mr Yang was a director of the Foreign Economic Relations and Trade Commission of the Shanghai Municipality, responsible for the international trade and foreign investment affairs of Shanghai City from 1983 to 1985. Mr Yang is a member of the Guangzhou Political Consultation Conference.

##### **Mr Nicholas Smith**

Mr Nicholas Smith, age 55, joined the Group in July 2005. Mr Smith has had over 20 years of experience in investment banking, having worked in Europe and Asia for Flemings, Jardine Fleming and HSBC. His roles have included co-head of investment banking and Chief Financial Officer of the Jardine Fleming Group. Mr Smith is a Chartered Accountant and previously worked for KPMG and Ernst & Young.

##### **Hon Peregrine Moncreiffe**

Hon Peregrine Moncreiffe, 56, was appointed to the Board in February 2006 by Metage Funds and Metage Special Emerging Markets Fund, acting jointly, pursuant to the terms of the Convertible Bonds. Mr Moncreiffe is a graduate of Oxford University and has spent much of his career in investment management and banking in London, New York and East Asia. Mr Moncreiffe has

worked for Credit Suisse First Boston and was a managing director of Lehman Brothers in New York before helping to found Buchanan Partners, a London based investment company of which he was chief executive.

#### *Senior management*

*Dr Wang Shao Ke*, age 55, is the Chief Scientist of the Group with effect from 1 April 2006. Dr Wang is a Faculty Affiliate of the Department of Soil and Crop Sciences at Colorado State University in the United States. He has been a Chief Scientist and Acting Director of China Agricultural Development (Hong Kong) Ltd. since 1997, which has developed a large-scale citrus farm producing grapefruits, limes and oranges in southern China. Dr Wang has been active in international scientific activities. He was appointed by the International Barley Genetic Committee as an International Co-ordinator for the Barley Chromosome 2 and served in that position from 1990 to 1992. He has also authored numerous papers in scientific journals published in the United States, Germany, Canada, Japan, Italy and China. He is an Honorary Professor of the Inner-Mongolian Academy of Agricultural Sciences and the Xinjiang Academy of Agricultural Sciences in China. He has been invited to China to lecture and give scientific advice numerous times over the past 15 years.

*Mr Liu Geng Feng*, age 66, is the head of the Group's research and development team. Mr Liu joined the Group in 2000. Before joining the Group, he supervised the PhD programme at the Hunan Agriculture Research Institute for 36 years.

*Madam Zhao Li Na*, age 49, is the financial controller of the Hepu Plantation. Madam Zhao joined the Group in 2003 and has over 20 years of experience in the financial management and accounting field in the PRC.

*Mr Xian Jia Xu*, age 42, is the manager of the forestry department of the Hepu Plantation. Mr Xiang obtained his bachelor's degree in agriculture from the University of Guangxi in 1986. Mr Xiang was trained by the US fruit juice company which was the original owner of the Hepu Plantation and has over 15 years of experience in agricultural and cultivation management.

*Mr Zhong Kun He*, age 50, joined the Group in March 2000 and is the executive controller of the Xinfeng Plantation. Mr Zhong graduated from the Zhanjiang Agriculture Professional School specialising in fruit tree management. Mr Zhong previously worked for the US fruit juice company which was the original owner of the Hepu Plantation, and has over 20 years of experience in agricultural and cultivation management.

#### *Project management consultancy*

To help ensure that there is adequate operational support for the projects that the Group is presently undertaking, the Group has engaged Vincent Chong of Questmark Asia Limited ("Questmark"), a consultancy firm. Questmark will, among other things, assist the Company in operations, infrastructure, internal controls and project management.

#### *Employees*

As at 31 December 2006, Asian Citrus employed 510 full-time employees, whose roles can be broken down into the following areas:

Management and administration	64
Head office staff	19
Sales and marketing	70
Research and development	17
Farming and field management	340
<b>Total</b>	<b>510</b>

*Source: Company payroll report*

During the harvest period, part-time labour is required by the Group. The Directors estimate that between 1,000 and 1,200 part-time employees were recruited for this purpose during the year ended 30 June 2006.

#### **Corporate governance**

Although the AIM rules do not require compliance with the Combined Code, the Directors recognise the value of it and the principles of good governance. The Directors have taken measures to ensure

that the Company complies with the Combined Code to the extent they consider appropriate, taking into account the size and nature of the Company and its business.

The Combined Code recommends that the roles of chairman and chief executive be kept separate. The Directors are aware that, due to the composition of the Board, the Company is not in compliance with this aspect of the Combined Code. They consider, however, that the composition of the Board is appropriate, given that the Chairman is a founder of the Company and that he is essential, at this stage of the Company's development, to both its daily operations and its longer-term strategy. The Directors are also satisfied that the composition of the Board meets the Combined Code's objective of ensuring checks and balances in the Company's management. This includes the appointment of four independent non-executive directors.

The Board has established an audit committee and a remuneration committee with formally delegated duties and responsibilities. The audit committee is chaired by Mr Ma Chiu Cheung, Andrew, and comprises Mr Ma and Mr Nicholas Smith. The remuneration committee is chaired by Mr Smith and comprises Mr Smith and Mr Ma.

The terms of reference for the audit committee provide that it receives and reviews reports from management and the auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Group. The terms of reference for the audit committee provide for it to have unrestricted access to the auditors.

The terms of reference for the remuneration committee provide that it reviews the scale and structure of the Executive Directors' remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the Non-Executive Directors are to be set by the Board. No Director may participate in any meeting at which discussions or decisions regarding his own remuneration take place. The remuneration committee also administers the Share Option Plan.

The Directors do not consider that, given the size of the Company and stage of its development, it is necessary to have a nomination committee; however, this will be kept under regular review by the Board.

The Company continues to take all reasonable steps to ensure compliance by the Directors and applicable employees with the provisions of the AIM Rules relating to dealings in securities of the Company. This has included adopting the Share Dealing Code at the time of the AIM Admission.

## PART V

### Terms of the Placing

#### Description of the Placing

In the Placing, the Company will issue New Ordinary Shares, to raise proceeds of up to approximately £18 million, net of underwriting commissions and other estimated fees and expenses of approximately £2 million. In addition, the Selling Shareholders intend to dispose of Sale Shares in the Placing to raise up to £10 million<sup>1</sup>.

Under the Placing, Ordinary Shares will be offered (i) outside the United States to certain institutional investors and (ii) in the United States to QIBs pursuant to Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Certain restrictions that apply to the distribution of this document and the Ordinary Shares being issued under the Placing in certain jurisdictions are described in paragraph below headed “*Securities laws*” of this Part V.

When admitted to trading, new Ordinary Shares issued pursuant to the Placing will be registered with ISIN BMG0620W1029, which is the ISIN of the existing issued share capital.

#### Terms and Conditions of the Placing

##### *Introduction*

These terms and conditions apply to persons making an offer to purchase Placing Shares under the Placing.

Each person to whom these conditions apply, as described above, who confirms his agreement to JPMorgan Cazenove to purchase Placing Shares under the Placing (an “Investor”) hereby agrees with JPMorgan Cazenove, the Registrars and the Company to be bound by these terms and conditions as being the terms and conditions upon which Placing Shares will be sold under the Placing. An Investor shall, without limitation, become so bound if JPMorgan Cazenove confirms to such investor (i) the Placing Price and (ii) its allocation of Placing Shares.

##### *Agreement to acquire Placing Shares*

Conditional on (i) Admission occurring and becoming effective by 8:00 a.m. on or prior to 3 April 2007 (or such later date as the Company and JPMorgan Cazenove may agree (not being later than 30 April 2007)) and (ii) the confirmation referred to above, an Investor agrees to become a member of the Company and agrees to acquire Placing Shares at the Placing Price. The number of Placing Shares issued to such Investor under the Placing shall be in accordance with the arrangements described above. To the fullest extent permitted by law, each Investor acknowledges and agrees that it will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights such Investor may have.

##### *Payment for Placing Shares*

Each Investor undertakes to pay the Placing Price for the Placing Shares issued to such Investor in such manner as shall be directed by JPMorgan Cazenove.

In the event of any failure by an Investor to pay as so directed by JPMorgan Cazenove, the relevant Investor shall be deemed hereby to have appointed JPMorgan Cazenove or any nominee of JPMorgan Cazenove to sell (in one or more transactions) any or all of the Placing Shares in respect of which payment shall not have been made as so directed, and, if relevant, to have agreed to indemnify on demand JPMorgan Cazenove in respect of any liability for stamp duty and/or stamp duty reserve tax arising in respect of any such sale or sales.

##### *Right to amend the size of the Placing*

JPMorgan Cazenove retains the right to amend the size of the Placing at any time prior to Admission.

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<sup>1</sup> Or any such other amount as may be agreed by the Company, the Selling Shareholders and JPMorgan Cazenove.

*Representations and warranties*

By receiving this document, each Investor and, in the case of paragraphs (c), (d) and (e) below, any person confirming its agreement to purchase Placing Shares on behalf of an Investor or authorising JPMorgan Cazenove to notify an Investor's name to the Registrars, is deemed to represent and warrant to JPMorgan Cazenove, the Registrars and the Company that:

- (a) in agreeing to subscribe for Placing Shares under the Placing, the Investor is relying on this document or a supplementary placing document (as the case may be) or a regulatory announcement issued by the Company, and not on any other information or representation concerning the Company or the Placing. Such Investor agrees that none of the Company, the Registrars, JPMorgan Cazenove or any of their respective officers or directors will have any liability for any such other information or representation and irrevocably and unconditionally waives any rights it may have in respect of any such other information or representation;
- (b) if the laws of any place outside the United Kingdom are applicable to the Investor's agreement to purchase Placing Shares or the Investor's receipt of the Placing Shares, such Investor has complied with all such laws and none of JPMorgan Cazenove, the Company and the Registrars will infringe any laws outside the United Kingdom as a result of such Investor's agreement to purchase Placing Shares or the Investor's receipt of the Placing Shares, any actions arising from such Investor's rights and obligations under the Investor's agreement to purchase Placing Shares or the Investor's receipt of the Placing Shares or under the Bye-laws;
- (c) in the case of a person who confirms to JPMorgan Cazenove on behalf of an Investor an agreement to purchase Placing Shares and/or who authorises JPMorgan Cazenove to notify the Investor's name to the Registrars as mentioned above, that person represents and warrants that he has authority to do so on behalf of the Investor as provided above;
- (d) the Investor is not, and is not applying as nominee or agent for, a person which is, or may be, mentioned in any of sections 67, 70, 93 and 96 of the UK Finance Act 1986 (depository receipts and clearance services);
- (e) in the case of a person who confirms to JPMorgan Cazenove, on behalf of an Investor that is an entity other than a natural person, an agreement to purchase Placing Shares and/or who authorises the notification of such Investor's name to the Registrars, it has authority to do so on behalf of the Investor.
- (f) the Investor is:
  - (i) a QIB;
  - (ii) not a broker-dealer which owns and invests on a discretionary basis less than US\$25 million in securities of unaffiliated issuers;
  - (iii) acquiring such Placing Shares for its own account, or for the account of one or more QIBs; and
  - (iv) not formed for the purpose of investing in the Placing Shares and will provide notice of the transfer restrictions to any subsequent transferee; or
  - (v) purchasing the Placing Shares outside the United States;
- (g) if it is a QIB in the United States, it acknowledges that the Placing Shares have not been and will not be registered under the Securities Act and represents to and agrees with the Company and JPMorgan Cazenove that, for so long as the Placing Shares are restricted securities within the meaning of Rule 144(a)(3), it will offer, resell, pledge or otherwise transfer the Placing Shares:
  - (i) in the United States person only to a QIB in a transaction meeting the requirements of Rule 144A; or
  - (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act,

and in each case in accordance with any applicable securities laws of any State of the United States and each such Investor further understands that the Placing Shares, to the extent that share certificates are produced, will bear a legend with respect to such transfer restrictions;

- (h) by it that by its purchase and holding of such Placing Shares or any interest therein, the purchaser and/or holder thereof and each transferee will be deemed to have represented and warranted at the time of its purchase and throughout the period that it holds such Placing Shares or interest therein, that:
- (j) it understands that the Company may receive a list of participants holding positions in the Placing Shares from the clearing and settlement systems; and
- (k) it acknowledges that the Company, JPMorgan Cazenove and its affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Placing Shares is no longer accurate, it will promptly notify the Company and JPMorgan Cazenove. If it is acquiring any Placing Shares as a fiduciary or agent for the account of one or more investors that are QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.

Each person in a relevant member state who receives any communication in respect of, or who acquires any Placing Shares under, the Placing contemplated in this document will be deemed to have represented, warranted to and agreed with JPMorgan Cazenove and the Company that:

- (a) it is a qualified investor within the meaning of the law in that relevant member state implementing Article 2(1)(e) of the Prospectus Directive; and
- (b) in the case of any Placing Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive,
  - (i) the Placing Shares acquired by it in the Placing have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any relevant member state other than qualified investors, as that term is defined in the Prospectus Directive, or have been acquired in circumstances in which the prior consent of JPMorgan Cazenove has been given to the offer or resale; or
  - (ii) where Placing Shares have been acquired by it on behalf of persons in any relevant member state other than qualified investors, the offer of those Ordinary Shares to it is not treated under the Prospectus Directive as having been made to such persons.

#### *Supply and disclosure of information*

If any of JPMorgan Cazenove, the Registrars or the Company or any of their agents requests any information about an Investor's agreement to purchase Placing Shares, such Investor must promptly disclose such information to them.

#### *Miscellaneous*

The rights and remedies of JPMorgan Cazenove, the Registrars and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them, and the exercise or partial exercise of one will not prevent the exercise of others.

On application, each Investor may be asked to disclose, in writing or orally, to JPMorgan Cazenove:

- (a) if he is an individual, his nationality; or
- (b) if he is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

All documents will be sent at the Investor's risk. They may be sent by e-mail or by post to such Investor at an address notified to JPMorgan Cazenove.

Each Investor agrees to be bound by the Bye-laws (as amended from time to time) once the Placing Shares, which such Investor has agreed to purchase, have been transferred to such Investor.

The contract to purchase Placing Shares and the appointments and authorities mentioned in this Part V will be governed by, and construed in accordance with, the laws of England and Wales. For the exclusive benefit of JPMorgan Cazenove, the Company and the Registrars, each Investor irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

In the case of a joint agreement to purchase Placing Shares, references to an "Investor" in these terms and conditions are to each of such Investors, and such Investors' liability is joint and several.

Each of JPMorgan Cazenove and the Company expressly reserves the right to modify the Placing (including, without limitation, its timetable and settlement) at any time before allocations are determined.

### **Bookbuilding**

Following the issue of this document to potential placees, JPMorgan Cazenove will be conducting a bookbuilding process (the “Bookbuilding”) to determine demand for participation in the Placing. JPMorgan Cazenove will seek to procure placees as part of this Bookbuilding. No commissions will be paid to placees or by placees in respect of any Placing Shares.

It is expected that the books will close on 29 March 2007 and allocations are expected to be announced, together with the Placing Price, as soon as practicable thereafter. JPMorgan Cazenove reserves the right to close the Bookbuilding and announce allocations at any earlier or later time (with the consent of the Company).

The principal terms of the Bookbuilding are set out below:

- By participating in the Bookbuilding and the Placing, placees will be deemed to have read and understood this document and the announcement to be released in connection with the Placing in their entirety and to be participating and making an offer for Placing Shares on the terms and conditions, and to be providing the representations, warranties, acknowledgements and undertakings, contained in this document.
- JPMorgan Cazenove is arranging the Placing as the agent of the Company.
- JPMorgan Cazenove is entitled to enter bids as principal in the Bookbuilding.
- A person eligible to participate in the Placing should communicate its bid by telephone to its usual sales contact at JPMorgan Cazenove. Any bid should state the number of Placing Shares for which the person wishes to subscribe or the total monetary amount which it is offering to subscribe for Placing Shares.
- JPMorgan Cazenove reserves the right not to accept bids or to accept bids in part rather than in whole. The acceptance of bids shall be at JPMorgan Cazenove’s absolute discretion.
- The Bookbuilding will establish a single price (the Placing Price) payable to JPMorgan Cazenove by all placees. respect of any Placing Shares.

### **Allocation**

The rights attaching to the Placing Shares and the Ordinary Shares (including the Conversion Shares) existing at Admission will be uniform in all respects, and they will form a single class for all purposes. Allocations under the Placing will be determined at the discretion of JPMorgan Cazenove following consultation with the Company. All Ordinary Shares issued pursuant to the Placing will be issued, payable in full, at the Placing Price.

### **Dealing arrangements**

The Placing is subject to the satisfaction of certain conditions contained in the placing agreement dated 28 March 2007 and made between (1) JPMorgan Cazenove, (2) the Selling Shareholders and (3) the Company, a summary of which is set out in paragraph 8 of Part VII of this document (the “Placing Agreement”), which are typical for an agreement of this nature. Certain conditions are related to events which are outside the control of the Company, the Directors and JPMorgan Cazenove.

It is expected that Admission will take place and dealings in the Placing Shares will commence on AIM at 8:00 a.m. (London time) on 3 April 2007.

Settlement of dealings from that date will be on a three-day rolling basis. The earliest date for settlement of such dealings will be 3 April 2007. These dates and times may be changed.

Each Investor will be required to undertake to pay the Placing Price for the Placing Shares sold or issued to such Investor in such manner as shall be directed by JPMorgan Cazenove.

The Company has applied for DIs representing the New Ordinary Shares and the Conversion Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the the New Ordinary Shares and the Conversion Shares, represented by DIs following Admission may take place within the CREST system if the relevant Investors so wish.

## **CREST**

The Company, through the Registrars, has established a depositary arrangement in relation to which DIs created pursuant to a deed of trust executed by the Registrars, acting as depositary and representing Ordinary Shares, will be issued to Investors who wish to hold their Placing Shares in electronic form within the CREST system. CREST is a paperless settlement system enabling securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer.

Application has been made for the Placing Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes. CREST is a voluntary system and holders of Placing Shares who wish to receive and retain share certificates will be able to do so. An Investor applying for Placing Shares in the Placing may, however, elect to receive Placing Shares in uncertificated form if such investor is a system member (as defined in the Uncertified Securities Regulations 2001) in relation to CREST.

### **Certificated Placing Shares**

Each certificate for Placing Shares will bear the legend set forth in sub-paragraph (viii) of "*Transfer restrictions*" in this Part V.

### **Underwriting arrangements**

The Company, JPMorgan Cazenove and the Selling Shareholders have entered into the Placing Agreement, pursuant to which JPMorgan Cazenove has agreed, subject to certain conditions, to use its reasonable endeavours to procure purchasers and subscribers for the Placing Shares (as the case may be) and, following announcement of the Placing Price, to underwrite such subscribers' and purchasers' obligations to pay for the Placing Shares. Further details of the terms of the Placing Agreement are set out in paragraph 8 of Part VII of this document.

### **Lock-up arrangements**

Pursuant to the Placing Agreement, the Company has agreed that, subject to certain exceptions, during the period of six months from the date of Admission, it will not, without the prior written consent of JPMorgan Cazenove, issue, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of, any Ordinary Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to the Placing Agreement and lock-up agreement entered into by the Directors (other than Mr Pang Yi) and JPMorgan Cazenove, each of the Directors and Selling Shareholders has agreed that, subject to certain exceptions, during the period of six months from the date of Admission, they will not, without the prior written consent of JPMorgan Cazenove, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, any Ordinary Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

### **Securities laws**

The distribution of this document and the offer of Placing Shares in certain jurisdictions may be restricted by law, and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction, including those in the following paragraphs which relate to the United States. Any failure to comply with those restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or buy any of the Placing Shares to any person in any jurisdiction to whom it is unlawful to make any such offer or solicitation in such jurisdiction.

#### ***United States***

##### ***General***

The Placing Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Placing Shares are being offered and sold outside of the United States in reliance on Regulation S. The Placing Agreement provides that JPMorgan Cazenove may arrange for the offer and resale of Placing Shares within the United States only to QIBs in reliance on Rule 144A or another available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of the Placing Shares, an offer or sale of Placing Shares within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

*Transfer restrictions*

**Due to the following restrictions, purchasers of Placing Shares in the United States are advised to consult legal counsel prior to making any offer for, or resale, pledge or other transfer of, the Placing Shares.**

Each purchaser of the Placing Shares offered in the United States will be deemed to have acknowledged that it has received a copy of this document and such other information as it deems necessary, if any, to make an investment decision and will be deemed to have represented and warranted that (terms used herein that are defined in Rule 144A are used herein as defined therein):

- (i) it is (i) a QIB or a broker-dealer acting for a QIB, (ii) acquiring such Placing Shares for its own account or for the account of one or more QIBs with respect to whom it has the authority to make, and does make, the representations and warranties set forth herein and (iii) is aware, and each beneficial owner of such Placing Shares has been advised, that the sale of Placing Shares to it may be being made in reliance on Rule 144A;
- (ii) it understands that the Placing Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or territory of the United States and are being offered in the United States only to QIBs in a transaction not involving a public offering in the United States within the meaning of the Securities Act. The purchaser understands and agrees that the Placing Shares may not be reoffered, resold, pledged or otherwise transferred except (i) to a person whom the purchaser and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction in compliance with Rule 903 or Rule 904 of Regulation S, or (iii) pursuant to another exemption from the registration requirements of the Securities Act, subject (in the case of clause (iii)) to the receipt by the Company of an opinion of counsel or such other evidence that the Company may reasonably require that such sale or transfer is in compliance with the Securities Act, in each case in accordance with all applicable securities laws of any state or territory of the United States or any other jurisdiction;
- (iii) it acknowledges that the Placing Shares (whether in physical, certificated form or in uncertificated form held in CREST) offered and sold hereby are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of Placing Shares. The purchaser understands that the Placing Shares may not be deposited into an unrestricted depositary receipt facility in respect of Placing Shares established or maintained by a depositary bank, unless and until such time as such Placing Shares are no longer restricted securities within the meaning of Rule 144(a)(3) under the Securities Act;
- (iv) it understands that any offer, sale, pledge or other transfer of the Placing Shares made other than in compliance with the above-stated restrictions may not be recognised by the Company;
- (v) it represents that if, in the future, it offers, resells, pledges or otherwise transfers the Placing Shares, it will notify such subsequent transferee of these transfer restrictions;
- (vi) it is not an affiliate (as defined in Rule 501(b) under the Securities Act) of the Company and is not acting on behalf of an affiliate of the Company;
- (vii) if it is acquiring the Placing Shares for the account of one or more investors, it has sole investment discretion with respect to each such account and has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (viii) the Placing Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THE SECURITY REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF

ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 AND 904 TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SECURITY REPRESENTED HEREBY. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THIS SECURITY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITORY RECEIPT FACILITY IN RESPECT OF ORDINARY SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITORY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

**Prospective investors are hereby notified that sellers of Placing Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

*Regulation S*

Each purchaser of the Placing Shares offered outside the United States in reliance on Regulation S will be deemed to have represented and agreed that it is, at the time of the offer to it of Placing Shares and at the time the buy order originated, outside the United States for the purposes of Regulation S (terms used in this paragraph that are defined in Regulation S are used herein as defined therein).

The Company, JPMorgan Cazenove and their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and warranties.

## PART VI

### (A) Selected Financial Information

#### Consolidated Income Statement

for the six-month periods ended  
31 December 2006 and 2005 and for the three years  
ended 30 June 2006, 2005 and 2004

	<i>30 June</i>			<i>31 December</i> <i>(unaudited)</i>	
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2006</i>	<i>2005</i>
	<i>RMB ('000)</i>				
Revenue	404,566	322,313	275,208	147,060	105,552
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	115,000	103,340	10,034	83,172	20,000
Other income	5,237	25	4	786	10,668
	<u>524,803</u>	<u>425,678</u>	<u>285,246</u>	<u>231,018</u>	<u>136,220</u>
Inventories used	(113,008)	(85,424)	(62,556)	(48,807)	(34,517)
Staff costs	(26,479)	(13,131)	(10,731)	(16,658)	(11,000)
Depreciation	(17,273)	(11,764)	(11,276)	(11,436)	(7,916)
Other operating expenses	(53,675)	(41,572)	(35,547)	(25,728)	(20,398)
Write-off of biological assets	—	(782)	—	(9)	—
Profit from operations	314,368	273,005	165,136	128,380	62,389
Interest income	2,755	348	46	601	1,625
Finance expenses	(7,145)	(3,575)	(987)	(2,983)	(4,144)
Net finance costs	(4,390)	(3,227)	(941)	(2,382)	(2,519)
Share of profit/(loss) of associates	(1,115)	—	—	292	(778)
Profit from ordinary activities before income tax	308,863	269,778	164,195	126,290	59,092
Income tax expenses	(50,937)	(20,970)	(12,380)	(15,990)	(9,590)
Profit attributable to shareholders	<u>257,926</u>	<u>248,808</u>	<u>151,815</u>	<u>110,300</u>	<u>49,502</u>
<b>Earnings per share</b>					
Basic earnings per share	<u>RMB4.28</u>	<u>RMB4.98</u>	<u>RMB3.04</u>	<u>RMB1.77</u>	<u>RMB0.84</u>
Diluted earnings per share	RMB4.16	RMB4.87	RMB3.04	RMB1.72	RMB0.84
Dividends	<u>38,637</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

## Consolidated Balance Sheet

as at 31 December 2006 and 2005 and  
30 June 2006, 2005 and 2004

	<i>30 June</i>			<i>31 December</i> <i>(unaudited)</i>	
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2006</i>	<i>2005</i>
	<i>RMB ('000)</i>				
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	538,907	274,184	206,373	557,200	387,423
Land use rights	62,742	55,372	29,868	62,086	63,399
Construction-in-progress	257,147	315,656	189,562	288,232	273,705
Biological assets	628,206	509,206	402,148	714,369	532,206
Deferred development costs	10,500	7,000	9,000	13,000	6,000
Interests in associates	5,335	—	—	5,380	13,125
	1,502,837	1,161,418	837,041	1,640,267	1,275,858
<b>Current assets</b>					
Investments held for trading	—	—	—	—	22,724
Properties under development	10,355	—	—	19,489	—
Inventories	1,168	839	252	488	1,812
Trade receivables	—	—	—	29,396	2,859
Other receivables	15,347	7,906	28,288	6,442	2,980
Cash and bank balances	103,174	82,015	19,130	29,762	87,435
	130,044	90,760	47,670	85,577	117,810
<b>Total assets</b>	1,632,881	1,252,178	884,711	1,725,844	1,393,668
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Issued capital	6,569	5,300	106	6,581	6,421
Reserves	1,499,080	1,085,188	826,573	1,576,763	1,268,363
	1,505,649	1,090,488	826,679	1,583,344	1,274,784
<b>Non-current liabilities</b>					
Income tax payable	—	—	16,993	—	—
Deferred tax liabilities	25,983	10,641	3,215	33,728	13,654
Convertible bonds	47,528	87,978	—	48,622	62,500
	73,511	98,619	20,208	82,350	76,154
<b>Current Liabilities</b>					
Interest bearing loans and borrowings	—	—	20,000	—	—
Trade payables and accrued expenses	18,958	7,051	4,552	21,402	21,644
Due to related parties	4,260	14,600	3,557	—	3,795
Due to shareholders	—	1,168	—	—	—
Due to ultimate holding company	—	9,715	9,715	—	—
Income tax payables	30,503	30,537	—	38,748	17,291
	53,721	63,071	37,824	60,150	42,730
<b>Total liabilities</b>	127,232	161,690	58,032	142,500	118,884
<b>Total equity and liabilities</b>	1,632,881	1,252,178	884,711	1,725,844	1,393,668

## Consolidated Cash Flow Statement

for the six-month periods ended  
31 December 2006 and 2005 and for the three years  
ended 30 June 2006, 2005 and 2004

	2006	30 June 2005	2004	31 December (unaudited)	
	2006	2005	2004	2006	2005
	<i>RMB ('000)</i>				
<b>Cash flows from operating activities</b>					
Profit from ordinary activities before income tax	308,863	269,778	164,195	126,290	59,092
Unrealised exchange (gain)/loss	(1,137)	—	—	(1,640)	540
Interest income	(2,755)	(348)	(46)	(601)	(1,625)
Finance expenses	7,145	3,575	987	2,983	4,144
Depreciation	17,273	11,764	11,276	11,436	7,916
Employee share option benefits	2,207	—	—	4,149	979
Amortisation of land use rights	1,284	1,096	532	656	627
Amortisation of deferred development costs	2,000	2,000	1,000	1,000	1,000
Gain on change of terms of convertible bonds	(1,537)	—	—	—	(1,537)
Fair value gain on investments held for trading	—	—	—	—	(3,039)
Loss on disposals of property, plant and equipment	404	—	—	—	—
Revaluation gain on biological assets	(115,000)	(103,340)	(10,034)	(83,172)	(20,000)
Share of (profit)/loss of associates	1,115	—	—	(292)	778
Write off of biological assets	—	782	—	9	—
	<u>219,862</u>	<u>185,307</u>	<u>167,910</u>	<u>60,818</u>	<u>48,875</u>
<b>Operating profit before changes in working capital</b>					
Decrease/(Increase) in inventories	(329)	(587)	146	680	(973)
Increase in trade receivables	—	—	—	(29,396)	(2,859)
Decrease/(Increase) in other receivables	(7,441)	20,276	1,724	8,905	4,916
Increase in properties under development	(10,355)	—	—	(9,134)	—
Decrease/(Increase) in trade payables and accrued expenses	4,294	47	246	(1,061)	12,672
Decrease in due from related parties	—	—	80	—	—
Decrease/(Increase) in due to related parties	2,160	(1,457)	2,290	(4,260)	1,695
	<u>208,191</u>	<u>203,586</u>	<u>172,396</u>	<u>26,552</u>	<u>64,326</u>
Income tax paid.	(35,629)	—	—	—	(19,823)
	<u>172,562</u>	<u>203,586</u>	<u>172,396</u>	<u>26,552</u>	<u>44,503</u>
<b>Net cash inflow from operating activities</b>					
<b>Cash flows from investing activities</b>					
Purchases of property, plant and equipment	(2,437)	(411)	(471)	(2,097)	(354)
Additions to land use rights	(8,654)	(26,600)	(30,400)	—	(8,654)
Construction-in-progress paid	(213,220)	(204,262)	(135,531)	(55,212)	(76,163)
Purchases of biological assets	(4,000)	(4,500)	(2,715)	(3,000)	(3,000)
Payments of deferred development costs	(5,500)	—	(1,040)	(3,500)	—
Investments in associates	(38)	—	—	—	(38)
Interest received	2,755	348	46	601	1,625
	<u>(231,094)</u>	<u>(235,245)</u>	<u>(170,111)</u>	<u>(63,208)</u>	<u>(106,706)</u>
<b>Net cash used in investing activities</b>					
<b>Cash flows from financing activities</b>					
Proceeds from issue of new share in subsidiaries	—	21,200	—	—	—
(Repayments to)/Advances from related parties	(12,500)	12,500	—	—	(12,500)
(Repayments to)/Advances from shareholders	(1,168)	1,168	—	—	(1,168)
Advances to an associate	(6,412)	—	—	—	(13,865)
Issue of convertible bonds	—	80,212	—	—	—
Proceeds from short-term bank loans	—	—	20,000	—	—
Repayments of short-term bank loans	—	(20,000)	(18,000)	—	—
(Repayments to)/Advances from ultimate holding company	(9,715)	—	5,552	—	(9,715)
Proceeds from issue of new shares	145,945	—	—	—	145,945
Issuing costs paid	(38,296)	—	—	—	(38,296)
Dividend paid	—	—	—	(38,637)	—
Proceeds from issue of new shares upon exercise of share options	3,262	—	—	1,883	—
Finance expenses paid	(1,425)	(356)	(987)	(2)	(1,416)
	<u>79,691</u>	<u>94,724</u>	<u>6,565</u>	<u>(36,756)</u>	<u>68,985</u>
<b>Net cash (outflow)/inflow from financing activities</b>					
<b>Effect of exchange rate changes on cash and cash equivalents</b>	—	—	—	—	(1,362)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>21,159</u>	<u>62,885</u>	<u>8,850</u>	<u>(73,412)</u>	<u>5,420</u>
<b>Cash and cash equivalents at beginning of year/period</b>	<u>82,015</u>	<u>19,130</u>	<u>10,280</u>	<u>103,174</u>	<u>82,015</u>
<b>Cash and cash equivalents at end of year/period</b>	<u>103,174</u>	<u>82,015</u>	<u>19,130</u>	<u>29,762</u>	<u>87,435</u>

## **(B) Operating and Financial Review**

*The following discussion of the Group's financial condition and results of operations should be read in conjunction with the Group's audited financial statements prepared in conformity with International Financial Reporting Standards incorporated by reference into this document. The discussion includes forward-looking statements which involve risks and uncertainties. You should review the "Risk Factors" set forth elsewhere in this document for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.*

### **Overview**

The Group is the single largest orange plantation owner and, the Directors believe, the single largest orange producer in the PRC. Asian Citrus currently owns and operates two orange plantations: the Hepu Plantation in Hepu County in the Guangxi Zhuang Autonomous Region, occupying approximately 30.9 sq. km, and the Xinfeng Plantation in Xinfeng County in Jiangxi province, occupying approximately 37.1 sq. km. The Hepu Plantation produced approximately 111,201 tonnes of oranges in the financial year ended 30 June 2006. The Directors expect the development of the Xinfeng Plantation to be completed in June 2007 and the plantation's first commercial harvest to take place in November 2007.

### **Factors that affect the results of the Group's operations**

#### ***Product mix and seasonality***

Of the Group's two existing plantations, substantially all of the Group's revenue is generated by sales of oranges produced at its Hepu Plantation. The Directors believe that the first commercial harvest from the Group's Xinfeng Plantation will occur in November 2007. Historically, a majority of the Group's production has been summer oranges (66.1 per cent in 2004, 63.0 per cent in 2005 and 63.5 per cent in 2006). As a consequence, the Group has sold most of its oranges during and immediately following the summer harvest (from March through June), which has resulted in stronger revenue for the Group during the second half of the financial year. The Directors believe that, as its trees mature, the wholly winter orange-producing Xinfeng Plantation will help to reduce the seasonality of revenue in the summer season.

#### ***Customer base***

Historically, the Group's customers could be divided into three categories: corporate customers, wholesale customers and sole proprietors. During the year ended 30 June 2006, the Group added an additional class of customers following the conclusion of several supplier contracts with regional supermarket chains. For the year ended 30 June 2006, sales to supermarket chains accounted for approximately 10.9 and 16.1 per cent of the Group's total production volume and total sales revenue, respectively. As a result of its strategy to increase sales to corporate customers and, more recently, supermarket chains, the Group has not had sufficient production from its plantations to supply sole proprietors at the same levels it had previously. As a result, sales to sole proprietors as a percentage of total revenue have decreased from approximately 30.7 per cent for the financial year ended 30 June 2004 to 3.7 per cent for the financial year ended 30 June 2006.

### **Explanation of key income statement items**

#### ***Gains arising from changes in fair value less estimated point-of-sale costs of biological assets ("fair value gains")***

Fair value gains are increases in fair value, less estimated point-of-sale costs, of the Group's biological assets. The Group's biological assets comprise orange trees, infant trees and immature seedlings. The role of orange trees is to supply oranges through the growth process in each production cycle. The infant trees and immature seedlings are held for their future potential as fruit-bearing orange trees. Both the infant trees and immature seedlings undergo significant biological transformation before they begin producing oranges. Once the infant trees and immature seedlings become mature and productive, they are transferred to the category of orange trees and measured at fair value less estimated point-of-sales costs at each balance sheet date.

The valuation methodology used by the Group to determine the fair value less estimated point-of-sale cost of its orange trees complies with IAS 41 (which aims to determine the fair value of a biological asset in its present location and condition). For the Group's audited year-end financials, this

valuation methodology is assessed by independent valuers, assisting the Directors in the calculation of the fair value gains.

The Directors are concerned that the valuers used for the year end 30 June 2006 may not have sufficient capacity to adequately satisfy the Group's future valuation requirements, in particular in connection with the audit of its financial statements for the year end 30 June 2007, and are therefore considering the appointment of a new valuation firm for their next audit.

Since fair value gains on biological assets are not recognised under PRC accounting rules, which are the statutory reporting standards for the Company's PRC-incorporated subsidiaries that own the biological assets, such gains are not distributable by the PRC subsidiaries as dividends.

#### ***Inventories used***

The Group's inventories used are composed of agricultural materials (including fertilisers and pesticides), consumables and packaging materials, which are stated at the lower of cost and estimated net realisable value.

#### ***Staff costs***

The Group's staff costs comprise remuneration payable to the Directors and to operational, sales and marketing staff, as well as to the agricultural workers recruited by the Group.

#### ***Other operating expenses***

The Group's other operating expenses mainly comprise selling and distribution expenses, and general and administrative expenses, which include sales commissions, advertising, business travel and transportation expenses, office administration expenses, amortisation and research costs.

#### ***Net finance costs***

The Group's net finance costs comprise the costs associated with the Convertible Bonds and the Original Convertible Bonds, as the case may be, and payments on the Group's bank debt, where applicable. Subsequent to their initial recognition for accounting purposes, the liability component of the Convertible Bonds or Original Convertible Bonds is amortised over the life of the bonds and the amortisation expense is recognised as a finance cost. Whereas the Convertible Bonds owned by Metage Funds and Metage Special Emerging Markets Funds (the only Convertible Bonds currently outstanding) carry no right to interest payments, the Original Convertible Bonds, which were outstanding from 16 March 2005 to 14 July 2005, required the Group to make coupon payments, as did the Convertible Bonds held by Mr Yim from 14 July 2005 until their conversion on 3 February 2006. The interest expense of these coupon payments was included in the Group's net finance costs. Due to the recognition of the amortisation expense as a finance cost, the conversion of the bonds in 2006 did not impact the income statements for the Group, although it did have an impact on the Group's cash flows.

Details of some of the Group's key significant accounting policies are set out below in this Part VI.

## **Results**

The table below sets out the Group's selected financial information for the years ended 30 June 2006, 2005 and 2004 and for the six-month periods ended 31 December 2006 and 2005.

	<i>Year ended 30 June</i>			<i>Six months ended 31 December (Unaudited)</i>	
	<i>2006</i>	<i>2005</i>	<i>2004</i> <i>(RMB'000)</i>	<i>2006</i>	<i>2005</i>
Revenue	404,566	322,313	275,208	147,060	105,552
Fair value gains	115,000	103,340	10,034	83,172	20,000
Other income	5,237	25	0	786	10,668
Inventories used	(113,008)	(85,424)	(62,556)	(48,807)	(34,517)
Staff costs	(26,479)	(13,131)	(10,731)	(16,658)	(11,000)
Depreciation	(17,273)	(11,764)	(11,276)	(11,436)	(7,916)
Other operating expenses	(53,675)	(41,572)	(35,547)	(25,728)	(20,398)
Write-off of biological assets	0	(782)	0	(9)	0
Profit from operations	314,368	273,005	165,136	128,380	62,389
Interest income	2,755	348	46	601	1,625

	<i>Year ended 30 June</i>			<i>Six months ended 31 December (Unaudited)</i>	
	<i>2006</i>	<i>2005</i>	<i>2004</i> <i>(RMB'000)</i>	<i>2006</i>	<i>2005</i>
Finance expenses	(7,145)	(3,575)	(987)	(2,983)	(4,144)
Net finance costs	(4,390)	(3,227)	(941)	(2,382)	(2,519)
Share of loss of associate	(1,115)	0	0	292	(778)
Profit from ordinary activities before income tax	308,863	269,778	164,195	126,290	59,092
Income tax expense	(50,937)	(20,970)	(12,380)	(15,990)	(9,590)
Profit attributable to shareholders	257,926	248,808	151,815	110,300	49,502

### **Six months ended 31 December 2006 compared to six months ended 31 December 2005**

#### ***Revenue***

The Group's revenue increased by 39.3 per cent to RMB147.1 million for the six months ended 31 December 2006, compared with RMB105.6 million for the six months ended 31 December 2005. This increase was a result of the growth in production volume at the Hepu Plantation, trial production at the Xinfeng Plantation and increased average selling prices resulting from greater sales to supermarket chains.

#### ***Fair value gains***

The Group's fair value gains increased materially to RMB83.2 million for the six months ended 31 December 2006, compared with RMB20 million for the six months ended 31 December 2005. This increase was due to the maturing of 400,000 infant trees into fruit-bearing orange trees at the Xinfeng Plantation, the increasing yields of existing fruit-bearing trees at the Hepu Plantation and the higher selling prices achieved by the Group for its oranges.

#### ***Inventories used***

The Group's inventories used increased by 41.4 per cent to RMB48.8 million for the six months ended 31 December 2006, compared with RMB34.5 million for the six months ended 31 December 2005. This increase was due to a rise in the quantity of raw materials utilised resulting from higher production volume and trial production at the Xinfeng Plantation, coupled with the higher price of fertiliser.

#### ***Staff costs***

The Group's staff costs increased by 51.8 per cent to RMB16.7 million for the six months ended 31 December 2006, compared with RMB11 million for the six months ended 31 December 2005. The level of pay received by temporary agricultural workers recruited by the Group is, among other things, based on the quantity of oranges picked. The increase in staff costs was a result of the agricultural workers recruited by the Group picking a greater number of oranges as production volume at the Hepu Plantation increased, combined with higher costs associated with employee share option benefits under the Share Option Plan.

#### ***Depreciation***

The Group's depreciation increased by 44.3 per cent to RMB11.4 million for the six months ended 31 December 2006, compared with RMB7.9 million for the six months ended 31 December 2005. This increase in depreciation resulted from an increase in farmland, infrastructure and machinery assets at the Xinfeng Plantation, including the addition and maturation of fruit-bearing trees, as well as an increase in tractors and irrigation equipment as the plantation neared completion. Depreciation at the Hepu Plantation, which was already fully operational, remained relatively unchanged.

#### ***Other operating expenses***

The Group's other operating expenses increased by 26.0 per cent to RMB25.7 million for the six months ended 31 December 2006, compared with RMB20.4 million for the six months ended 31 December 2005. This increase was due, in large part, to the increased amount of commission paid by the Group, which is directly linked to sales. Increased advertising, travel and transportation costs also contributed to the overall increase.

### ***Profit from operations***

The Group's profit from operations increased by 105.8 per cent to RMB128.4 million for the six months ended 31 December 2006, compared with RMB62.4 million for the six months ended 31 December 2005. This increase was driven by the factors discussed above.

### ***Net finance costs***

The Group's net finance costs decreased by 4 per cent to RMB2.4 million for the six months ended 31 December 2006, compared with RMB2.5 million for the six months ended 31 December 2005. This decline was due to a decrease in the outstanding balance of the Convertible Bonds upon conversion of HK\$20 million in principal amount by Mr Yim Hin Keung in February 2006.

### ***Profit from ordinary activities before income tax***

The Group's pre-tax profit increased by 113.7 per cent to RMB126.3 million for the six months ended 31 December 2006, compared with RMB59.1 million for the six months ended 31 December 2005. This increase was the result of the factors discussed above.

### ***Income tax expenses***

The Group's income tax expenses increased by 66.7 per cent to RMB16.0 million for the six months ended 31 December 2006, compared with RMB9.6 million for the six months ended 31 December 2005. This increase was attributable to the impact on deferred tax of a material increase in fair value gains.

### ***Profit attributable to shareholders***

The Group's profit attributable to shareholders increased by 122.8 per cent to RMB110.3 million for the six months ended 31 December 2006, compared with RMB49.5 million for the six months ended 31 December 2005. This increase resulted from the factors discussed above.

## **Year ended 30 June 2006 compared with year ended 30 June 2005**

### ***Revenue***

The Group's revenue increased by 25.5 per cent to RMB404.6 million for the year ended 30 June 2006, compared with RMB322.3 million for the year ended 30 June 2005. This increase was largely driven by the growth in production volume at the Hepu Plantation and higher average selling prices resulting from increased sales to supermarket chains.

### ***Fair value gains***

The Group's fair value gains increased by 11.3 per cent to RMB115 million for the year ended 30 June 2006, compared with RMB103.3 million for the year ended 30 June 2005. This increase reflected higher biological asset valuations resulting from the increasing maturity of the trees at the Hepu Plantation and, to a lesser extent, higher selling prices.

### ***Inventories used***

The Group's inventories used increased by 32.3 per cent to RMB113 million for the year ended 30 June 2006, compared with RMB85.4 million for the year ended 30 June 2005. This increase was due to the increase in both the quantity and price of the raw materials used by the Group, including organic fertiliser and pesticides, due to short-term supply shortages in the PRC.

### ***Staff costs***

The Group's staff costs increased by 102.3 per cent to RMB26.5 million for the year ended 30 June 2006, compared with RMB13.1 million for the year ended 30 June 2005, driven in large part by the higher levels of remuneration paid to Directors and the recruitment of more operational, sales and marketing personnel following the AIM Admission. Prior to the AIM Admission, the members of the Company's administrative staff were officially employed by Top Nation, which supplied the Company with office equipment and facilities and provided management and administrative support in return for a monthly management fee. The relationship was discontinued shortly after the AIM Admission, at which point the Group hired the administration staff previously employed by Top Nation, resulting in an increase in its staff costs. This increase in staff costs between these periods was also driven by higher agricultural labour costs as a result of workers picking a greater number of oranges as the production volume at the Hepu Plantation increased.

### ***Depreciation***

The Group's depreciation increased by 46.6 per cent to RMB17.3 million for the year ended 30 June 2006, compared with RMB11.8 million for the year ended 30 June 2005. This increase was largely due to machinery at the Xinfeng Plantation, including tractors and irrigation equipment as well as certain infrastructure assets, in respect of which depreciation was charged as the plantation moved nearer completion. Depreciation at the Hepu Plantation, which was already fully operational, remained relatively unchanged.

### ***Other operating expenses***

The Group's other operating expenses increased by 29.1 per cent to RMB53.7 million for the year ended 30 June 2006, compared with RMB41.6 million for the year ended 30 June 2005, due in large part to the increased amount of commission paid by the Group, which is directly related to higher levels of sales. Increased advertising, travel and transportation costs also contributed to the overall increase in other operating expenses.

### ***Profit from operations***

The Group's profit from operations increased by 15.2 per cent to RMB314.4 million for the year ended 30 June 2006, compared with RMB273.0 million for the year ended 30 June 2005. This increase was driven by the factors discussed above.

### ***Net finance costs***

The Group's net finance costs increased by 37.5 per cent to RMB4.4 million for the year ended 30 June 2006, compared with RMB3.2 million for the year ended 30 June 2005. This increase was due to an increase in the amortisation of the liability component of the Convertible Bonds, as well as an increase in the interest expenses payable in relation to the Convertible Bonds, both of which were partially offset by interest income received on the Group's bank deposits.

### ***Profit from ordinary activities before income tax***

The Group's pre-tax profit increased by 14.5 per cent to RMB308.9 million for the year ended 30 June 2006, compared with RMB269.8 million for the year ended 30 June 2005. This increase resulted from the factors discussed above.

### ***Income tax expenses***

The Group's income tax expenses increased by 142.4 per cent to RMB50.9 million for the year ended 30 June 2006, compared with RMB21 million for the year ended 30 June 2005. This increase was attributable to an underlying increase in pre-tax profit and an increase in the income tax rate applicable to Lucky Team (Hepu). As a wholly-owned subsidiary established in Hepu County, Lucky Team (Hepu) is subject to a preferential FEIT rate of 15 per cent until 2010. In addition, as a WFOE, Lucky Team (Hepu) benefited from a further 50 per cent reduction in the applicable income tax rate for the three financial years ended 30 June 2005, resulting in an effective FEIT rate of 7.5 per cent. For the financial year ended 30 June 2006, this latter reduction no longer applied, resulting in an increase in the effective rate to 15 per cent.

### ***Profit attributable to shareholders***

The Group's profit attributable to shareholders increased by 3.7 per cent to RMB257.9 million for the year ended 30 June 2006, compared with RMB248.8 million for the year ended 30 June 2005. This increase was attributable to the factors discussed above.

## **Year ended 30 June 2005 compared with year ended 30 June 2004**

### ***Revenue***

The Group's revenue increased by 17.1 per cent to RMB322.3 million for the year ended 30 June 2005, compared with RMB275.2 million for the year ended 30 June 2004, driven principally by increased sales, which were made possible by increased production volume at the Hepu Plantation.

### ***Fair value gains***

The Group's fair value gains increased materially to RMB103.3 million for the year ended 30 June 2005, compared with RMB10 million for the year ended 30 June 2004. This increase was principally due to higher biological asset valuations resulting from the increasing maturity of the existing fruit-bearing trees at the Hepu Plantation.

### ***Inventories used***

The Group's inventories used increased by 36.4 per cent to RMB85.4 million for the year ended 30 June 2005, compared with RMB62.6 million for the year ended 30 June 2004. This increase was principally due to the development of the Xinfeng Plantation and the increased use of raw materials, such as organic fertiliser and pesticides, in line with growing production volume at the Hepu Plantation.

### ***Staff costs***

The Group's staff costs increased by 22.4 per cent to RMB13.1 million for the year ended 30 June 2005, compared with RMB10.7 million for the year ended 30 June 2004, driven largely by the Group's agricultural workers picking a greater number of oranges as production volume at the Hepu Plantation increased.

### ***Depreciation***

The Group's depreciation increased slightly by 4.4 per cent to RMB11.8 million for the year ended 30 June 2005, compared with RMB11.3 million for the year ended 30 June 2004. Only assets at the Hepu Plantation, the construction of which was largely completed prior to these periods, were subject to depreciation.

### ***Other operating expenses***

The Group's other operating expenses increased by 17.2 per cent to RMB41.6 million for the year ended 30 June 2005, compared with RMB35.5 million for the year ended 30 June 2004. This rise was primarily due to non-recurring increases in general and administrative expenses related to the issue of shares and Original Convertible Bonds (including broker fees and legal fees).

### ***Profit from operations***

The Group's profit from operations increased by 65.3 per cent to RMB273 million for the year ended 30 June 2005, compared with RMB165.1 million for the year ended 30 June 2004. This increase was driven by the factors discussed above.

### ***Net finance costs***

The Group's net finance costs increased by 255.6 per cent to RMB3.2 million for the year ended 30 June 2005, compared with RMB0.9 million for the year ended 30 June 2004. This increase in finance costs was a consequence of the issue of the Original Convertible Bonds in March 2005, resulting in greater interest expense and the amortisation of the liability component of the Convertible Bonds.

### ***Profit from ordinary activities before income tax***

The Group's pre-tax profit increased by 64.3 per cent to RMB269.8 million for the year ended 30 June 2005, compared with RMB164.2 million for the year ended 30 June 2004. This increase was attributable to the factors discussed above.

### ***Income tax expenses***

The Group's income tax expenses increased by 69.4 per cent to RMB21 million for the year ended 30 June 2005, compared with RMB12.4 million for the year ended 30 June 2004, due to an underlying increase in pre-tax profit.

### ***Profit attributable to shareholders***

The Group's profit attributable to shareholders increased by 63.9 per cent to RMB248.8 million for the year ended 30 June 2006, compared with RMB151.8 million for the year ended 30 June 2005. This increase resulted from the factors discussed above.

## **Liquidity and capital resources**

### ***Overview***

The Group's principal sources of liquidity used to finance its capital requirements have been a combination of cash flows from operations and the issue of the Ordinary Shares.

### ***Cash flows***

The table below summarises the Group's cash flows for the years ended 30 June 2006, 2005 and 2004 and the six-month periods ended 31 December 2006 and 2005.

	<i>Year ended 30 June</i>			<i>Six months ended 31 December (Unaudited)</i>	
	<i>2006</i>	<i>2005</i>	<i>2004</i> <i>(RMB'000)</i>	<i>2006</i>	<i>2005</i>
Net cash inflow from operating activities	172,562	203,586	172,396	26,552	44,503
Net cash used in investing activities	231,094	235,425	170,111	63,208	106,706
Net cash (outflow)/inflow from financing activities	79,691	94,724	6,565	(36,756)	68,985

***Net cash inflow from operating activities***

Net cash inflow from operating activities amounted to RMB26.6 million for the six months ended 31 December 2006, compared to RMB44.5 million for the six months ended 31 December 2005 (a decrease of RMB17.9 million, or 40.2 per cent), reflecting the increase in trade receivables outstanding as at 31 December 2006 resulting from higher sales volume to supermarkets on credit terms. The entire amount of trade receivables outstanding as at 31 December 2006 was subsequently collected prior to March 2007.

Net cash inflow from operating activities amounted to RMB175.6 million for the year ended 30 June 2006, compared to RMB203.6 million for the year ended 30 June 2005 (a decrease of RMB28 million, or 13.8 per cent), principally as a result of the payment of an accrued income tax charge of RMB35.6 million. This payment represented the Group's entire income tax liability from inception through 30 June 2004, as the only Group entity subject to income tax during this period benefited from an extension in the due date of such tax to 31 December 2005. Net cash inflow from operating activities amounted to RMB203.6 million for the year ended 30 June 2005, compared to RMB172.4 million for the year ended 30 June 2004 (an increase of RMB31.2 million, or 18.1 per cent), principally reflecting the increase in operating profit.

***Net cash used in investing activities***

Net cash used in investing activities amounted to RMB63.2 million for the six months ended 31 December 2006, compared to RMB106.7 million for the six months ended 31 December 2005 (a decrease of RMB43.5 million, or 40.8 per cent), reflecting the fact that the Xinfeng Plantation was nearing completion and therefore required less capital expenditure than in previous years.

Net cash used in investing activities amounted to RMB231.1 million for the year ended 30 June 2006, compared to RMB235.4 million for the year ended 30 June 2005 (a decrease of RMB4.3 million, or 1.8 per cent), reflecting continuing investment by the Group in the Xinfeng Plantation, including purchases of seedlings and costs associated with soil improvement, land cultivation, implementation of irrigation systems and development of infrastructure, and in the Xingfeng Development. Net cash inflow used in investing activities amounted to RMB235.4 million for the year ended 30 June 2005, compared to RMB170.1 million for the year ended 30 June 2004 (an increase of RMB65.3 million, or 38.4 per cent), reflecting increasing investment in the Xinfeng Plantation.

Capital expenditure amounted to RMB63.8 million, RMB233.8 million, RMB235.8 million and RMB170.2 million in the six months ended 31 December 2006 and the years ended 30 June 2006, 2005 and 2004 respectively. The increase in capital expenditure between 2004 and 2005 was largely the result of the Group's increasing levels of investment in the Xinfeng Plantation.

The Group's policy is to invest actively in internal growth and expand its existing operations by building the Asian Citrus brand, establishing sales offices to target national supermarkets and securing sources of additional oranges to fulfil anticipated demand for the Group's oranges in excess of the Group's own production capacity. The Group is also investigating other investment opportunities, including a number of small potential acquisitions, with a view to enhancing the Group's sourcing and distribution of oranges.

Working capital decreased by RMB50.9 million for the six months ended 31 December 2006, with lower cash and bank balances resulting from the Company's first dividend payment of RMB38.6 million during the period and, to a lesser extent, higher trade receivables offset by higher trade payables and income tax payables. From 30 June 2005 to 30 June 2006, the Group's working capital had increased by RMB48.6 million, with higher cash and bank balances resulting from the issue of new ordinary shares in August 2005 offset by lower amounts due to shareholders and the ultimate

holding company and by higher trade receivables. The Group's working capital from 2004 to 2005 increased by RMB17.8 million, with higher cash and bank balances resulting from the issue of the Original Convertible Bonds partially offset by the increase in income tax payable.

#### *Net cash inflow from financing activities*

Net cash outflow from financing activities amounted to RMB36.8 million for the six months ended 31 December 2006, compared to an inflow of RMB69 million for the six months ended 31 December 2005. This outflow resulted principally from the payment of dividends by the Company in 2006. In addition, for the six months ended 31 December 2005, the Company had significant cash inflow from the proceeds of the issue of Ordinary Shares in connection with the AIM Admission.

Net cash inflow from financing activities amounted to RMB79.7 million for the year ended 30 June 2006, compared to RMB94.7 million for the year ended 30 June 2005 (a decrease of RMB15 million, or 15.8 per cent), and was principally a result of the issue of Ordinary Shares in connection with the AIM Admission. Net cash inflow from financing activities amounted to RMB94.7 million for the year ended 30 June 2005, compared to RMB6.6 million for the year ended 30 June 2004 (an increase of RMB88.2 million), and was principally a result of the issue of the Original Convertible Bonds in March 2005, partially offset by repayment of RMB20 million in bank financing.

#### *Capital resources*

The Group's primary sources of liquidity have been, over the past two years, cash flows from operations, the issue of Ordinary Shares in connection with the AIM Admission and the issue of the Original Convertible Bonds. The Group's primary uses of cash are for capital expenditure and to expand existing operations.

#### *Debt*

##### *Summary of commitments*

The following table summarises the Group's contractual obligations, commercial commitments and principal payments as at 31 December 2006.

	<i>Total</i>	<i>Less than 1 year</i>	<i>1-5 years</i>	<i>After 5 years</i>
		<i>RMB ('000)</i>		
Operating leases <sup>(1)</sup>	273,894	6,741	24,865	242,288
Convertible Bonds <sup>(2)(3)</sup>	56,000	—	56,000	—
<b>Total contractual obligations</b>	<b>329,894</b>	<b>6,741</b>	<b>80,865</b>	<b>242,288</b>

(1) The Group's operating leases relate to the leases of several office premises and the leases of land on which the Hepu and Xinfeng Plantations are situated. The leases of the two plantations are for 50 years, expiring in 2050 and 2052, respectively.

(2) The holders of the Convertible Bonds have indicated to the Company that they intend to convert all of the Convertible Bonds in the Conversion.

(3) Assumes an exchange rate of HK\$1 = RMB1 as at 31 December 2006, which is the rate used by the Company for internal accounting purposes.

Gross debt comprises the face value of outstanding Convertible Bonds and bank debt, if any, less cash and cash equivalents. Net debt comprises gross debt, less cash and cash equivalents, where gross debt exceeds the cash and cash equivalents. Net cash comprises cash and cash equivalents, less gross debt, where cash and cash equivalents exceed gross debt.

The Group's gross debt amounted to RMB56 million as at 31 December 2006, compared with RMB84.8 million as at 31 December 2005. The Group's cash and cash equivalents amounted to RMB29.8 million as at 31 December 2006, compared with RMB87.4 million as at 31 December 2005. The Group's total net debt amounted to RMB26.2 million at 31 December 2006, compared with RMB2.6 million at 31 December 2005.

At 30 June 2006, the Group's gross debt amounted to RMB58.2 million, compared with RMB106 million as at 30 June 2005 and RMB20.0 million as at 30 June 2004. The changes in the level of the Group's gross debt over these periods is attributable principally to the fact that no Convertible Bonds had been issued on 30 June 2004, the entire face amount of the HK\$100.0 million Original Convertible Bonds was outstanding on 30 June 2005, and only approximately HK\$56.0 million of

Convertible Bonds was outstanding on 30 June 2006 following the conversion of approximately HK\$44.0 million of bonds during that financial year. In addition, an unsecured and interest-free loan of RMB12.5 million was made by Fuzhou Chaoda, a related party, to the Group during the year ended 30 June 2005. This loan was repaid in full during the year ended 30 June 2006. In 2004, the Group had outstanding short-term bank loans of RMB20 million, which were repaid in full during the year ended 30 June 2005. The Group's cash and cash equivalents amounted to RMB103.2 million as at 30 June 2006, compared with RMB82 million as at 30 June 2005 and RMB19.1 million as at 30 June 2004. The Group's total net cash amounted to RMB44.9 million as at 30 June 2006, compared with net debt of RMB36.5 million as at 30 June 2005 and RMB0.9 million as at 30 June 2004.

As at 31 December 2006, the Group's borrowed funds consisted principally of the issue proceeds of Convertible Bonds. The principal terms of the Convertible Bonds are as follows:

<b>Beneficial holder</b>	<i>Metage Funds</i>	<i>Metage Special Emerging Market Fund</i>
<b>Face value</b>	HK\$38,500,000	HK\$17,500,000
<b>Maturity date</b>	15 March 2008	15 March 2008
<b>Coupon rate</b>	Nil	Nil
<b>Conversion price</b>	At initial rate of HK\$16.31 per share, subject to achieving an investment return of not less than 25 per cent per annum	At initial rate of HK\$16.31 per share, subject to achieving an investment return of not less than 25 per cent per annum

Metage Funds and Metage Special Emerging Markets Fund intend to convert HK\$38.5 million and HK\$17.5 million in principal amount, respectively, prior to Admission, into 2,360,515 Ordinary Shares and 1,072,961 Ordinary Shares.

#### **Acquisitions and joint ventures**

In August 2005, the Company entered into a joint venture arrangement with Calfruits through the establishment of Asian Fruits, which in turn owns Asian Fruits Trading, a fruit trading company in the PRC. The Company owns 46 per cent of Asian Fruits. Asian Fruits Trading currently purchases oranges produced by third parties in Jiangxi province for export.

The Group is investigating other investment opportunities, including a number of small potential acquisitions, with a view to improving the Group's sourcing and distribution of oranges.

#### **Capital expenditure**

The Group's capital expenditure amounted to RMB63.8 million, RMB233.8 million, RMB235.8 million and RMB170.2 million in the six months ended 31 December 2006 and the years ended 30 June 2006, 2005 and 2004, respectively. The increase in capital expenditure is largely attributable to the investment by the Group in the Xinfeng Plantation, increasing construction-in-progress costs, including purchases of seedlings, as well as costs associated with soil improvement, land cultivation, implementation of irrigation systems and development of infrastructure. The Group expects that its capital expenditure levels will be driven over the next three years principally by the construction of the proposed Hunan Plantation, the total cost of which the Directors currently estimate is likely to be approximately £35 million. The Board estimates that phases two and three of the Xinfeng Development are likely to cost approximately RMB37.5 million and RMB119.3 million, respectively, and the Directors currently expect that, subject to the Board being satisfied with the successful completion of the preceding phase and there being no significant delay in this completion, phases two and three will be completed by the end of 2008 and 2009, respectively.

The Group had the following capital commitments as at the dates indicated:

	<i>31 December</i> <i>(unaudited)</i>		<i>30 June</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<u>(RMB'000)</u>	<u>(RMB'000)</u>	<u>(RMB'000)</u>	<u>(RMB'000)</u>
<b>Contracted but not provided for:</b>				
Construction-in-progress	125,654	129,145	106,995	129,974
Properties under development	17,420	—	23,640	—
Research and development	3,000	—	6,500	—
Purchase of land use rights	6,856	—	8,227	—
Purchase of immature seedlings	1,000	1,000	—	—
<b>Total</b>	<u>153,930</u>	<u>130,145</u>	<u>145,362</u>	<u>129,974</u>

The principal components of the capital commitments are as follows:

“Construction-in-progress” and “Properties under development” refer principally to the relevant costs associated with the Xinfeng Plantation and the Xinfeng Development, respectively.

“Research and development” costs are principally those associated with the outsourcing by the Group of certain research and development projects to the China Citrus Institute.

“Purchase of land use rights” refers to the costs associated with the acquisition by the Group of land use rights in Hubei province where the third-party sourcing operations of the Group is located.

“Purchase of immature seedlings” refers to the costs associated with the purchase of seedlings to be planted by the Group at the Xinfeng Plantation.

#### **Off-balance sheet arrangements**

Save for the operating leases described above under “Liquidity and capital resources – Debt”, the Group currently has no off-balance sheet arrangements.

#### **Research and development**

The Group’s research and development expenditure totaled RMB2.2 million in the six months ended 31 December 2006 (1.5 per cent of the Group’s revenue) and RMB2.6 million (2.5 per cent of the Group’s revenue) in the six months ended 31 December 2005, RMB8.0 million for the year ended 30 June 2006 (2.0 per cent of revenue), RMB4.3 million (1.3 per cent of the Group’s revenue) for the year ended 2005 and RMB4.1 million in 2004 (1.5 per cent of the Group’s revenue). The year-on-year increases in research and development expenditure have been driven largely by the increasing focus on the development of seedlings and improvement of species as part of the Group’s proposed nursery business. The Group has outsourced major research and development projects to various government academic and research institutions, including the China Citrus Institute, Guangxi Citrus Research Institute and the Guangdong Entomology Research Institute.

#### **Quantitative and qualitative disclosures about market risk**

##### ***Financial risk management***

Save in relation to the Convertible Bonds, the Group has no borrowings. As a consequence, the Directors believe that the Group has little exposure to financial risk.

##### ***Foreign exchange risk***

Substantially all of the Group’s operating costs are denominated in Renminbi. Accordingly, the Group’s primary exposure is to Renminbi and also to the Hong Kong dollar, which is the currency in which the principal amount due on the Convertible Bonds is determined. Historically, Renminbi and the Hong Kong dollar have moved in unison to a large extent. If the Directors felt it necessary to hedge this exposure, the Group would not currently be able to do so, as Renminbi-linked derivatives are unavailable in the PRC. The Group is not exposed to any other foreign exchange risk on an ongoing basis, save in relation to its dividends, which are paid in pounds sterling converted from the declared Renminbi dividend at prevailing market rates.

### ***Interest rate risk***

The Group currently has no bank debt, so its exposure to interest rate risk is negligible.

### ***Commodity risk***

The Group is exposed to commodity risk arising from changes in the prices of raw materials. There are currently no derivatives available in the PRC to hedge this risk.

### ***Credit risk***

Most of the Group's customer base is composed of wholesalers, which it supplies on a payment-on-delivery basis, thereby reducing the Group's overall credit risk. However, sales to supermarket chains account for an increasingly significant proportion of the Group's turnover, and the Group typically supplies oranges to these customers on 30 to 45 days' credit, a development that has been increasing the Group's credit risk.

### **Significant accounting policies**

The Group's most significant policies adopted in the preparation of its financial statements are listed below.

#### ***Biological assets***

Biological assets are living animals or plants managed by an enterprise which is involved in the agricultural activity of transforming biological assets for sale, into agricultural produce or into additional biological assets.

Infant trees and immature seedlings purchased on the open market, which are to undergo a transformation process until they become mature and productive, are stated at fair value less estimated point-of-sale costs. The fair value of orange tree biological assets are based on the present value of expected net cash flows from the orange trees discounted at a pre-tax rate.

The fair value is based on market-determined prices of infant trees and immature seedlings of a similar size, species and age or alternative estimates of fair value. Management reviews the progress of infant trees and immature seedlings on an ongoing basis and, should these be deemed unsuitable for further cultivation, full provision is made at that time.

Any gain or loss arising on initial recognition of biological assets at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs is recognised in the consolidated income statement.

Agricultural produce harvested from the Group's biological assets is measured at its fair value less estimated point-of-sale costs. The fair value of agricultural produce is based on market prices of agricultural produce of similar size and weight or alternative estimates of fair value.

Any gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is recognised in the consolidated income statement.

#### ***Property, plant and equipment***

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. The Group calculates its depreciation costs using the straight-line method to write off the cost of each asset over its estimated useful life. The Group uses the following principal annual rates:

Buildings	2.22 per cent to 3.57 per cent
Leasehold improvements	3.33 per cent
Leasehold furniture, fixtures and office equipment	20 per cent
Motor vehicles	20 per cent
Farmland infrastructure and machinery	2 per cent to 20 per cent

The Group charges to its income statement all major costs related to restoring property, plant and equipment to their normal working condition. The Group capitalises and depreciates its improvements to property, plant and equipment over their expected useful lives. Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will accrue to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

#### ***Land use rights***

Up-front prepayments made for land use rights are expensed in the consolidated income statement on a straight-line basis over the period of the lease, which is 50 years. Where there is impairment, the impairment is expensed in the consolidated income statement. In prior years, land use rights are stated at their cost and amortised over the period of the respective leases.

#### ***Employee benefits***

##### *Employee retirement benefits*

Costs of employee retirement benefits are recognised as an expense in the year in which they are incurred.

##### *Share-based payment*

The Group operates an equity-settled and share-based compensation plan. The cost of share options is charged to the consolidated income statement, and the corresponding amount is recognised in the share option reserve under equity. Where the employees or directors are required to meet vesting conditions before they become entitled to the share options or shares, the Group recognises the fair value of the share options or shares as an expense over the vesting period. If the employees or directors choose to exercise share options, the respective amount in option share reserve is transferred to share capital and share premium, together with the exercise price, net of any directly attributable transaction costs. At each balance sheet date, the Group revises its estimates of the number of share options or shares that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to the share option reserve over the remaining vesting period.

#### ***Deferred taxation***

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

#### ***Construction-in-progress***

Construction-in-progress is stated at cost, which includes all construction costs less accumulated impairment losses. Construction-in-progress is not depreciated until completion of construction. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

#### ***Properties under development***

Properties under development are stated at the lower of cost and estimated net realisable value. Estimated net realisable value represents the estimated selling price less estimated costs of completion and selling expenses.

Properties held for development comprise land at cost and development costs, including construction expenditure and attributable interest and professional charges capitalised during the development period, less incidental rental income and any accumulated impairment losses.

***Operating leases***

Leases of assets, including cultivation bases, under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Operating lease payments are charged to operating profit on a straight-line basis over the period of the respective leases.

***Convertible Bonds***

The Convertible Bonds can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes to their fair value. Subsequent to initial recognition, the liability component of the Convertible Bonds is measured at amortised cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component, which is recognised initially as the difference between the fair value of the Convertible Bonds as a whole and the fair value of the liability component, is not re-measured subsequent to initial recognition.

## PART VII

### Additional information

#### 1. Incorporation, share capital and subsidiaries

- 1.1 The Company was incorporated and registered in Bermuda on 4 June 2003 under the name of Asian Citrus (which is also the Company's commercial name) with registered number 33747 as an exempted company with limited liability under the Bermuda Act. The Company is domiciled in Bermuda and the Ordinary Shares were created under the Bermuda Act. The principal legislation under which the Company operates is the Bermuda Act. The liability of the Company's members is limited.
- 1.2 The registered office of the Company is Clarendon House, 2 Church Street, Hamilton, Bermuda HM11 (telephone number (+1441) 295 1422).
- 1.3 The Company's principal activity is to act as an investment holding company in respect of the Group, which is primarily engaged in the research and development, plantation and sales of citrus produce, as more particularly described in Part IV of this document.
- 1.4 The Company was incorporated with an authorised share capital of HK\$100,000 divided into 1,000,000 Ordinary Shares of HK\$0.10 each, all of which were issued and allotted nil paid at par, as to 510,000 Ordinary Shares to Market Ahead and as to 490,000 Ordinary Shares to Huge Market on 18 November 2003 and such Ordinary Shares were subsequently credited as fully paid.

On 27 July 2005, the Directors of the Company passed a resolution to issue 1,703,049 new Ordinary Shares to the Selling Shareholders on conversion of part of their holding of the Convertible Bonds.

On 27 July 2005, the Directors of the Company passed a resolution to issue 9,072,813 new Ordinary Shares and the new Ordinary Shares were issued on 3 August 2005.

On 3 February 2006, the Directors of the Company passed a resolution to issue 1,226,087 new Ordinary Shares to one of the holders of the Convertible Bonds on conversion of his holding of such notes.

On 10 August 2006, the Directors of the Company passed a resolution to issue 115,500 new Ordinary Shares on the exercise of 115,500 share options granted by the Company.

On 15 March 2007, the Shareholders passed a resolution granting the authority to allot and issue up to 14,000,000 new Ordinary Shares for the purposes of the Placing. On 29 March 2007, it is intended that the Directors will pass a resolution to issue the New Ordinary Shares and 3,433,476 Conversion Shares.

- 1.5 Save as described in paragraph 1.4 above, no share or loan capital of the Company has been issued or is now proposed to be issued fully or partly paid either for cash or for a consideration other than cash to any person, nor has any share capital been put under option.
- 1.6 The Placing Shares may be traded both in certificated form, and in uncertificated form through Depository Interests in the CREST system.
- 1.7 Information on the Company's subsidiary undertakings is listed below.

<i>Name of subsidiary</i>	<i>Registered address</i>
Newasia Global Limited (a company incorporated under the laws of BVI, with limited liability)	Sea Meadow House Blackburne Highway (P.O. Box 116) Road Town Tortola British Virgin Islands
Lucky Team Biotech Development (Hepu) Ltd (a WFOE established in the PRC)	Wujia Town Hepu County Guangxi PRC
Litian Biological Sciences & Technology Development (Xingfeng) Co., Ltd. (a WFOE established in the PRC)	Jiading Town Xinfeng County Jiangxi Province PRC

<i>Name of subsidiary</i>	<i>Registered address</i>
Asian Citrus Management Company Limited (a company incorporated under the laws of the BVI, with limited liability)	The offices of Offshore Incorporation Limited P.O. Box 957 Offshore Incorporations Centre Road Town Tortola British Virgin Islands
Asian Citrus (H.K.) Company Limited (a company incorporated under the laws of Hong Kong with limited liability on 13 October 2004 and a wholly-owned subsidiary of Asian Citrus Management)	Room 1109-1111 Wayson Commercial Building 28 Connought Road West Hong Kong
Access Fortune Investment Limited (a company incorporated under the laws of BVI, with limited liability)	The offices of Offshore Incorporations Limited PO Box 957 Offshore Incorporations Centre Road Town Tortola British Virgin Islands
Raised Energy Investment Limited (a company incorporated under the laws of BVI, with limited liability)	The offices of Offshore Incorporations Limited PO Box 957 Offshore Incorporations Centre Road Town Tortola British Virgin Islands
Lucky Team Biotech Development (Zigui) Limited (a WFOE established in the PRC)	Yinxingtus Village, Maoping Town Zigui County Hubei Province PRC
Lucky Team Agriculture Development Limited (a WFOE established in the PRC)	Wujia Town Hepu County Guangxi PRC
Lucky Team Industrial (Ganzhou) Company Limited (a WFOE established in the PRC)	Xinfeng Country Industrial Park Jiangxi Province PRC

All the Company's subsidiary undertakings are directly or indirectly wholly-owned.

#### 1.8 *Share capital as at 31 December 2006*

As at 31 December 2006:

- (a) the only class of shares in issue were Ordinary Shares; and
- (b) 200,000,000 Ordinary Shares were authorised and 62,317,449 Ordinary Shares of HK\$0.10 each were issued and allotted fully paid at par.

The number of shares in issue on 31 December 2006 was 62,317,449 Ordinary Shares.

Save as disclosed in this document, as at 31 December 2006, there were no convertible securities, exchangeable securities or securities with warrants in issue nor were there any acquisition rights or obligations over authorised but unissued capital or any undertaking to increase the capital of the Company nor was there any capital of any member of the Group which was under option or agreed conditionally or unconditionally to be put under option.

#### 1.9 There have been no public takeover bids in respect of the Company's equity.

## 2. **Summary of the constitution of the Company and Bermuda company law**

### 2.1 *Memorandum of Association*

The Memorandum of Association states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Ordinary Shares respectively held by them and that the Company is an exempted company as defined in the

Bermuda Act. Clause 6 of the Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Bermuda Act, excluding paragraph 8 thereof and clause 7 of the Memorandum of Association sets out the powers of the Company. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Bermuda Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the Board upon such terms and subject to such conditions as it thinks fit.

## 2.2 *Bye-laws*

The share capital of the Company consists of a single class of Ordinary Shares and the Bye-laws were adopted on 29 June 2005. The following is a summary of certain provisions of the Bye-laws:

### *(a) Directors*

#### *(i) Power to issue shares and warrants and pre-emption rights*

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Bermuda Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. Subject to the Bye-laws, the Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

The Board may not exercise any power of the Company to allot shares in the Company (other than shares allotted in pursuance of an employees' share scheme) or grant any right to subscribe for, or to convert any security into, shares in the Company (a) without prior authorisation from the Company in general meeting and (b) unless the Company has made an offer of such shares or right to subscribe for, or to convert securities into, shares in the Company to certain existing shareholders of the Company in accordance with the Bye-laws.

Subject to the provisions of the Bermuda Act, the Bye-laws relating to authority, pre-emption rights or otherwise, any direction that may be given by the Company in general meeting and, where applicable, the AIM Rules and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, the unissued shares of the Company (whether forming part of the original or any increased capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and on such terms and conditions as the Board may in its absolute discretion determine, but so that no shares shall be issued at a discount.

Note: The pre-emption rights contained in the Bye-laws have been drafted to comply substantially with guidelines published by the Association of British Insurers.

#### *(ii) Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Bermuda Act to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Bermuda Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda company law" in paragraph 2.4 below.

(v) *Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Bermuda Act.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Bermuda Act, upon such terms as the Board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

Subject to the Bermuda Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who is in any way, whether directly or indirectly, interested in a transaction or arrangement with the Company shall declare in accordance with the Bermuda Act the nature of his interest at the meeting of the Board at which the question of entering into the transaction is first taken into consideration or if the Director did not at the date of that meeting know his interest existed in the transaction, at the first meeting of the Board after he knows that he is or has become interested.

Save as provided in the Bye-laws, a Director shall not vote in respect of any contract, arrangement, transaction or any other proposal in which he has an interest which (together with any interest of any person connected with him) is a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is prohibited from voting.

A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) on any resolution including:

- (aa) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (dd) any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he is not the holder of or beneficially interested in one per cent or more of any class of the equity share capital of such company (or of a third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for this purpose to be a material interest in all circumstances);
- (ee) any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme or employees' share scheme under which he may benefit and which either relates to both employees and Directors or has been approved by or is subject to and conditional upon approval by the Board of the Inland Revenue of the United Kingdom for taxation purposes;
- (ff) any contract, arrangement, transaction or proposal concerning the adoption modification or operation of any scheme for enabling employees including full time executive Directors of the Company and/or any subsidiary to acquire shares of the Company or any arrangement for the benefit of employees of the Company or any of its subsidiaries under which the Director benefits in a similar manner to employees and which does not accord to any Director as such any privilege not accorded to the employees to whom the scheme relates; and
- (gg) any arrangement for purchasing or maintaining for any officer or auditor of the Company or any of its subsidiaries insurance against any liability which by virtue of any rule of law would otherwise attach to him in respect of any negligence, breach of duty or breach of trust for which he may be guilty in relation to the Company or any of its subsidiaries of which he is a director, officer or auditor.

The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company or exercisable by them as directors of such other company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or other officers or servants of such other company, or voting or providing for the payment of remuneration to such officers or servants.

*(vii) Remuneration*

Directors are to be paid out of funds of the Company for their services subject to such limit (if any) as the Directors may from time to time determine not exceeding the aggregate annual sum of HK\$5 million as currently prescribed in the Bye-laws (excluding amounts payable under other provisions of the Bye-laws) or such larger amount as the Company by ordinary resolution may determine.

The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing

director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (but not by way of a commission on, or per centage of, operating revenue, profits or otherwise unless with the prior approval of the members) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time determine. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(viii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to

time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ix) *Borrowing powers*

The Board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Bermuda Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) *Alterations to constitutional documents*

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) *Alteration of capital*

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Bermuda Act:

- (i) increase its share capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (iii) divide its share capital into several classes of shares and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by ordinary resolution, subject to any confirmation or consent required by law, reduce its issued share capital or, save for the use of share premium as expressly permitted by the Bermuda Act, any share premium account or other undistributable reserve.

(d) *Variation of rights of existing shares or classes of shares*

Subject to the Bermuda Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, the provisions of the Bye-laws relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two

holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) *Special resolution-majority required*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, voting in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which, not less than 21 clear days' notice has been given.

(f) *Voting rights (generally and on a poll) and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

(g) *Convening of special general meeting on requisition*

Members holding at the date of deposit of the requisition no less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition and such a meeting must be held within two months after the deposit of such requisition. If the Board does not within twenty-one days from the date of the deposit of the requisition proceed to convene such a meeting, the requisitionists themselves may convene a meeting but any meeting so convened cannot be held after the expiration of three months from the said date.

(h) *Corporate representatives*

Any corporation which is a member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any general meeting of the Company. The person so authorised is entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member and such corporation shall for the purposes of the Bye-laws be deemed to be present in person at any such meeting if a person so authorised is present thereat.

(i) *Requirements for annual general meetings*

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the AIM Rules) at such place as may be determined by the Board.

(j) *Accounts and audit*

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Bermuda Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office of the Company or, subject to the Bermuda Act, at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

Subject to the Bermuda Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company in general meeting in accordance with the requirements of the Bermuda Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the AIM Rules, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the Directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to the summarised financial statements, a complete printed copy of the Company's annual financial statement and the Directors' report thereon.

Subject to the Bermuda Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(k) *Notices of meetings and business to be conducted thereat*

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(l) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the London Stock Exchange or in such other form as the Board may approve. The instrument of transfer (which need not be under seal) must be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Bermuda Act.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists (provided that the refusal does not prevent dealings in shares of that class in the Company taking place on an open and proper basis), and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as prescribed in the AIM Rules to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The Board may, subject to applicable laws and if permitted by the Bermuda Act, permit shares of any class held in uncertificated form to be transferred without an instrument of transfer by means of a relevant system, including CREST.

The registration of transfers of shares may be suspended at such times and for such periods as the Board may determine and either generally or in respect of any class of shares provided that the register of members shall not be closed for more than 30 days in any year.

(m) *Power for the Company to purchase its own shares*

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that, subject to authorisation by members at a general meeting by way of a special resolution, the power is exercisable by the Board upon such terms and conditions as it thinks fit provided that the aggregate nominal value of the shares of the Company that may be purchased must not exceed the amount determined by the members.

(n) *Power for any subsidiary of the Company to own shares in the Company*

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(o) *Dividends and other methods of distribution*

Subject to the Bermuda Act, the Board may declare dividends in any currency to be paid to the members. The Board may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Bermuda Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid *pro rata* according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

(p) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

*(q) Call on shares and forfeiture of shares*

Subject to the Bye-laws and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent per annum as the Board determines.

*(r) Inspection of register of members*

The register and branch register of members shall be open to inspection on every business day, subject to such reasonable restrictions as the Board may impose, so that not less than two hours in each business day be allowed for inspection, unless the register is closed in accordance with the Bermuda Act.

*(s) Quorum for meetings and separate class meetings*

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

*(t) Rights of the minorities in relation to fraud or oppression*

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 2.4(f) below.

*(u) Procedures on liquidation*

A resolution that the Company be wound up by the court or be wound up voluntarily shall be an ordinary resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of an ordinary resolution and any other sanction required by the Bermuda Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one

kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(v) *Untraceable members*

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in newspapers giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the London Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such amount, it shall become indebted to the former member of the Company for such amount.

(w) *Failure to disclose interests in shares*

If any member, or any other person with an interest in a member's shares, has been duly served with a notice in the form referred to in section 212 of the Companies Act 1985 of the United Kingdom and is in default for the prescribed period referred to in the Bye-laws in supplying the Company with the information required, then, unless the Directors determine otherwise, that member will not, for so long as the default continues, be entitled to attend or vote, either personally or by proxy, at a general meeting of members or to exercise any other right conferred on members in relation to members' meetings in respect of the shares to which the default relates (the "Default Shares").

Where the Default Shares represent at least 0.25 per cent of the share capital of the Company, the Board may direct that (1) any dividend or other money that otherwise would be payable in respect of the Default Shares will be retained by the Company, without any liability to pay interest when such money is finally paid to the member; and (2) no transfer of any of the Default Shares held by the member will be registered unless the member is not himself in default in supplying the information required and the transfer is only part of the member's holding and the member proves to the satisfaction of the Board that no person in default as regard supplying such information is interested in any shares the subject of the transfer.

(x) *Share control limits*

Except in certain situations as prescribed in the Bye-laws, a person may not (1) whether by himself, or with persons determined by the Board to be acting in concert with him ("associated persons"), acquire shares which, taken together with shares held or acquired by such associated persons, carry thirty per cent or more of the voting rights attributable to ordinary shares of the Company; or (2) while he, together with associated persons, holds not less than thirty but not more than fifty per cent of the voting rights attributable to Ordinary Shares of the Company, acquire, whether by himself or with associated persons, additional shares which, taken together with shares held by associated persons, increases his voting rights attributable to ordinary shares of the Company.

The Board has full authority to determine the application of the Bye-laws relating to share control limits and may take such action as it thinks fit to enforce the Bye-laws relating to share control limits.

There are no mandatory takeover bids under the Bye-laws or Bermuda law but the "squeeze out" of minority shareholders may be effected pursuant to schemes of arrangement, general offers, amalgamations and in situations where a member or a group of members together hold 95 per cent of the issued shares of the Company.

Note: It is currently understood that the City Code on Takeovers and Mergers (the “Takeover Code”) will not apply to the Company and therefore, a takeover of the Company will be unregulated by the UK takeover authorities. The Bye-laws contain certain takeover protections, as described above although these will not provide the full protections afforded by the Takeover Code.

(y) *Notification of major interests in shares*

To ensure compliance with recently introduced guidance to the AIM Rules relating to notification of interests in shares by shareholders, and to help the Company to discharge its shareholder notification obligations under AIM Rule 17, the Company’s Bye-laws were amended by special resolution at the SGM. Pursuant to the amended Bye-laws, Shareholders must advise the Company when they acquire or cease to have a notifiable interest in Ordinary Shares (being three per cent or more of the total issued share capital) or of any integer percentage point changes in any such holdings (whether derived from their own acquisitions or disposals or as a result of changes in circumstances beyond their control).

2.3 *Variation of Memorandum of Association and Bye-laws*

The Memorandum of Association may be altered by the Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days’ notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days’ notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent in nominal value of the shares giving that right.

2.4 *Bermuda company law*

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. The Company complies with the applicable Bermuda corporate governance regime. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions nor to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) *Share capital*

The Bermuda Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”, to which the provisions of the Bermuda Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of that company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Bermuda Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Bermuda Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

*(b) Meeting of shareholders*

A meeting of members of a company shall be convened at least once in every calendar year: this meeting shall be referred to as the annual general meeting. The directors may, whenever they think fit, convene a general meeting; all meetings other than annual general meetings shall be called special general meetings.

The directors of a company, notwithstanding anything in its bye-laws shall, on the requisition of members holding at the date of the deposit of the requisition not less than 10 per cent of the paid-up capital as at the date of the deposit carries the right of voting at general meetings, or in the case of a company not having a share capital, members of the company representing not less than one-tenth of the total voting rights of all the members having at the date a right to vote at general meetings forthwith proceed duly to convene a special general meeting of the company. If the directors do not within 21 days after the date of the deposit of the requisition proceed to convene the special general meeting, the requisitionists (or any of them representing more than 50 per cent of the total voting rights of all of them) may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from that date.

A member which is a corporation may authorise such person or, to the extent expressly permitted by the bye-laws, such persons as it thinks fit to act as its representative at any meeting of the company or of any class of members. Each representatives so authorised is entitled to exercise the same powers on behalf of the corporation or its nominee could exercise as if it were an individual member, and in addition, the right to vote individually on a show of hands.

*(c) Financial assistance to purchase shares of a company or its holding company*

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Bermuda Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

*(d) Purchase of shares and warrants by a company and its subsidiaries*

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be

provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its Board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Bermuda Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Bermuda Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Bermuda Act.

*(e) Dividends and distributions*

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Bermuda Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

*(f) Protection of minorities*

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater per centage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the

members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in the future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(g) *Management*

The Bermuda Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Bermuda Act requires that every officer should comply with the Bermuda Act, regulations passed pursuant to the Bermuda Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Bermuda Act or the bye-laws to be exercised by the members of the company.

(h) *Accounting and auditing requirements*

The Bermuda Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Bermuda Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Bermuda Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards

used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarised financial statements instead. The summarised financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Bermuda Act. The summarised financial statements sent to the company's members must be accompanied by an auditor's report on the summarised financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarised financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than 21 days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within 7 days of receipt by the company of the member's notice of election.

(i) *Auditors*

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(j) *Exchange control*

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities (including shares) are listed on an appointed stock exchange (as defined in the

Bermuda Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(k) *Taxation*

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(l) *Stamp duty*

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(m) *Loans to directors*

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting; (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business; or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Bermuda Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising there from.

(n) *Inspection of corporate records*

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrars of Companies in Bermuda which will include the company’s certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company’s memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company’s audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Bermuda Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may, on payment of a fee prescribed by the Bermuda Act, require a copy of the register of members or any

part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Bermuda Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(o) *Winding up*

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Bermuda Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has

been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

(p) *Shareholder notifications*

Bermuda law does not require shareholders in Bermuda-incorporated companies to notify significant interests in shares.

**3. Directors**

3.1 The names of all companies and partnerships of which each Director is currently or has been a director or partner at any time in the five years preceding the date of this document are set out at paragraph 3.2 below.

3.2

<i>Name and age</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Mr Tong Wang Chow (68)	Newasia Global Limited Lucky Team Biotech Development (Hepu) Ltd. Litian Biological Science & Technology Development (Xinfeng) Co., Ltd. Asian Citrus (HK) Company Limited Asian Citrus Management Company Limited Lucky Team Biotech Development (Zigui) Ltd. Market Ahead Investments Limited Lucky Team Industrial (Ganzhou) Co Limited	Lucky Team Holdings Limited Pan Air & Sea Forwarders (HK) Limited Kingsrich Wharf Limited Wholly Development Limited Giant Full Limited King Dragon Development Limited Wai Ma Beer (Hong Kong) Limited Top Nation Shipping Limited
Mr Tong Hung Wai, Tommy (38)	Newasia Global Limited Lucky Team Biotech Development (Hepu) Ltd. Litian Biological Science & Technology Development (Xinfeng) Co., Ltd. Lucky Team Biotech Development (Zigui) Ltd. Lucky Team Agriculture Development Ltd. Lucky Team Industrial (Ganzhou) Co. Ltd. Raised Energy Investments Ltd. Access Fortune Investments Ltd.	Asia Link International (HK) Limited Lucky Team Industrial (Ganzhou) Co Limited
Mr Cheung Wai Sun (48)	Xin Xiu International Trading Company Raised Energy Investments Ltd. Access Fortune Investments Ltd. Asian Fruits Ltd. Lucky Team Agriculture Development Ltd. Lucky Team Industrial (Ganzhou) Co. Ltd. Lucky Team Biotech Development (Zigui) Ltd.	
Mr Pang Yi (37)	Sky Honest Group Ltd. Moral Known International Ltd.	—

<i>Name and age</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
	Raised Energy Investments Ltd. Lucky Team Industrial (Ganzhou) Co., Ltd.	
Mr Sung Chi Keung (31)	—	—
Mr Ip Chi Ming (45)	Chaoda Modern Agriculture (Holdings) Limited Young West Investment Limited ENG Express Electronic Limited Wellmake West Investments Limited Supreme Bonus Limited Wanson (Asia) Limited Profit Tech Limited	
Mr Ma Chiu Cheung, Andrew (65)	Tanrich Financial Holdings Limited The People's Insurance Company of China (Hong Kong) Limited China Resources People's Telephone Company Limited Asia Financial Holdings Limited Peaktop International Holdings Limited Mayee Management Limited Ping Chung Hing Trading Limited Asia Insurance Company Limited China Resources Power Holdings Co. Ltd	Andrew MA & Company Magician Industries (Holdings) Limited Asia Commercial Bank Limited Andrew Ma DFK (CPA) Limited
Dr Hon Lui Ming Wah JP (68)	Keystone Electronics Company Limited S.A.S. Dragon Holding Limited Gold Peak Industries (Holdings) Limited A V Concept Holdings Limited Glory Mark Hi-Tech (Holdings) Limited L.K. Technology Holdings Limited	Fujikon Industrial Holdings Limited WKP Technologies Limited WKP Investment Limited
Mr Yang Zhen Han (74)	Yang & Tan Consultants Company Wahlin Limited Yang & Tan (Shanghai) Company Limited Yang & Associates Limited Shanghai Yunhan Industrial Co. Ltd	Proactive Technology Holdings Limited NM Rothschild & Sons (Hong Kong) Limited Shanghai Chlor Alkali Chemical Company Limited
Mr Nicholas Smith (55)	4C Associates Limited Totally Independent Directors Ltd PlusMarkets Group Plus Markets Plc The Earnshaw Partnership	—
Hon Peregrine Moncreiffe (56)	Crendon Industrial Limited Noventa Limited Kenmore Consultancy Metage Funds Limited Metage Special Emerging Markets Fund Limited	Order of Malta Dial-a-Journey Limited Moncreiffe & Co plc Metage Capital Limited North Atlantic Smaller Companies Investment Trust

<i>Name and age</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
	Telecard Ltd. Pakistan	plc Pollen Investments Limited Moncreiffe Agricultural Enterprises Limited UA Developments Limited Live Stock Marts Limited Speedie Brothers Limited United Auctions (Pedigree) Limited United Auctions (Offset Printers) Limited UA Trustees Limited UA Fuel Limited Ben Nevis Auction Marts Limited UA Operations Limited UA Group Limited Scotsmire Limited RCO Investments plc

3.3 Except as noted at paragraph 3.2 above, as at the date of this document, none of the Directors named in this document:

- (a) is currently a director of a company or a partner in a partnership or has been a director of a company or a partner in a partnership within the five years immediately preceding the date of this document;
- (b) has any unspent convictions for any indictable offences or has been declared bankrupt or has made any voluntary arrangement with his creditors;
- (c) has been a director of a company at the time of or within the twelve months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration or voluntary arrangement of that company or any composition or arrangement with its creditors generally or any class of its creditors;
- (d) has been a partner in a partnership at the time of or within the twelve months preceding any compulsory liquidation, administration or voluntary arrangement of that partnership;
- (e) has had any asset which has been subject to a receivership or has been a partner in a partnership at the time of or within the twelve months preceding an asset of the partnership being subject to a receivership; or has been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or has been disqualified by a Court from acting as a director of, or in the management or conduct of the affairs of, any company.

3.4 The date on which each Director was appointed and, if applicable, the date of expiration of each of the Director's current term of office is listed below:

<i>Director</i>	<i>Date of Appointment</i>	<i>Expiration of Term</i>
Mr Tong Wang Chow	18 November 2003	1 July 2008
Mr Tong Hung Wai, Tommy	18 November 2003	1 July 2008
Mr Cheung Wai Sun	18 November 2003	1 July 2008
Mr Pang Yi	16 June 2005	1 July 2008
Mr Sung Chi Keung	15 January 2007	15 January 2010
Mr Ip Chi Ming	18 November 2003	18 November 2006
Mr Ma Chiu Chung, Andrew	29 July 2004	29 July 2007
Dr Hon Lui Ming Wah JP	2 June 2004	2 June 2007
Mr Yang Zhen Han	2 June 2004	2 June 2007
Mr Nicholas Smith	1 July 2005	1 July 2008
Hon Peregrine Moncreiffe	1 January 2006	31 December 2008

- 3.5 Save as disclosed above and at paragraph 4 below headed, “Interests of Directors and other major Shareholders” the Company and the Directors are not aware of any person who, as at the date of this document, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company or will be interested directly or indirectly in 3 per cent or more of the issued share capital of the Company. The Company’s major shareholders do not have different voting rights to other holders of the Company’s Ordinary Shares.
- 3.6 No loans or guarantees granted or provided by the Company to or for the benefit of any Directors are outstanding.
- 3.7 Save as disclosed in this document, no Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company and remains in any respect outstanding or unperformed.

#### 4. Interests of Directors and other major Shareholders

- 4.1 At the date of this document, approximately 41 per cent of the issued Ordinary Shares of the Company are held by Market Ahead. The beneficial interests of the Directors and of persons connected to them in the share capital of Market Ahead, at the date of this document, are set out below.

<i>Name</i>	<i>Number of shares</i>	<i>Percentage shareholding</i>
Tong Wang Chow <sup>1</sup>	38,000	76.0
Tong Hung Wai, Tommy <sup>2</sup>	3,000	6.0
Tong Lee Fung Kiu <sup>3</sup>	3,000	6.0
Tong Mei Lin <sup>4</sup>	3,000	6.0
Lee Kung Chung <sup>5</sup>	3,000	6.0

*Notes:*

- 1 Mr Tong Wang Chow is the Chairman and an executive Director.
- 2 Mr Tong Hung Wai, Tommy, is an executive Director and the son of Mr Tong Wang Chow.
- 3 Mrs Tong Lee Fung Kiu is a non-executive Director and the spouse of Mr Tong Wang Chow.
- 4 Miss Tong Mei Lin is the daughter of Mr Tong Wang Chow.
- 5 Mr Lee Kun Chung is the brother-in-law of Mr Tong Wang Chow.

No Director or member of any Director’s family has a related financial product referenced to the Company’s Ordinary Shares.

- 4.2 As at the date of this document, the following Directors and substantial shareholders have the following shareholdings in the Company:

<i>Name</i>	<i>Number and class of shares</i>	<i>Percentage shareholding</i>
Market Ahead	25,500,000 Ordinary Shares	40.92
Huge Market	24,500,000 Ordinary Shares	39.31
Mr Nicholas Smith	40,000 Ordinary Shares	0.06
Mr Pang Yi	15,000 Ordinary Shares	0.02

No Director or member of the Director’s family has, or will have, following Admission, a security, convertible or exchangeable into or otherwise referenced to the Company’s Ordinary Shares.

- 4.3 In addition to the shareholdings detailed at paragraph 4.1 above, the following entities have direct or indirect shareholdings in the Company, as at the date of this document:

<i>Name</i>	<i>Capacity</i>	<i>Number and class of shares</i>	<i>Percentage shareholding</i>
Huge Market	Beneficial owner <sup>1</sup>	24,500,000 Ordinary Shares	39.31
Chaoda	Interest of a controlled corporation <sup>1</sup>	24,500,000 Ordinary Shares	39.31
Kailey Investment Limited	Interest of a controlled corporation <sup>1,2</sup>	24,500,000 Ordinary Shares	39.31
Mr Kwok Ho	Interest of a controlled corporation <sup>1,2,3</sup>	24,500,000 Ordinary Shares	39.31

- 1 The Ordinary Shares are held by Huge Market, a company incorporated in the BVI and the entire issued share capital of which is held by Chaoda.
- 2 Chaoda, a company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange of Hong Kong Limited and are beneficially owned by Kailey Investment Limited and the public.
- 3 Kailey Investment Limited, a company incorporated in the BVI and is beneficially owned by Mr Kwok Ho.

4.4 The following Directors hold options over shares in the Company, as of the date of Admission.

<i>Name</i>	<i>No. of options exercisable at a price of 112 pence</i>	<i>No. of options exercisable at a price of 204.5 pence</i>
Mr Tong Wang Chow	—	150,000
Mr Tong Hung Wai, Tommy	—	55,000
Mr Cheung Wai Sun	—	45,000
Mr Sung Chi Keung	108,000	100,000
Mr Pang Yi*	135,000	120,000

\* *Options in respect of this individual are only subject to continuing employment.*

150,000 of the options granted to Mr Pang Yi's options are exercisable at 112 pence and will vest over 10 years (at a rate of 10 per cent per year) and are only subject to continuing employment. On 10 August 2006, 15,000 new ordinary shares of HK\$0.10 each were issued to Mr Pang Yi upon exercise of 15,000 share options at an exercise price of 112 pence.

120,000 of the options granted to Mr Sung Chi Keung's options are exercisable at 112 pence and will vest over 10 years (at a rate of 10 per cent per year) and are only subject to continuing employment. On 10 August 2006, 12,000 new ordinary shares of HK\$0.10 each were issued to Mr Sung Chi Keung upon exercise of 12,000 share options at an exercise price of 112 pence.

On 27 July 2006, 150,000, 55,000, 45,000, 100,000 and 120,000 options were granted to Mr Tong Wang Chow, Mr Tong Hung Wai, Tommy and Mr Cheung Wai Sun, Mr Sung Chi Keung and Mr Pang Yi, respectively. These options were granted at an exercise price of 204.5 pence and vest at the rate of 20 per cent per year for the period from 27 July 2007 to 27 July 2014 and are subject to continuing employment and the satisfaction of certain performance conditions.

#### 4.5 ***Relationship with Huge Market and Chaoda***

As at the date of this document, Huge Market was interested in approximately 39.3 per cent of the issued share capital of the Company. The entire issued share capital of Huge Market is held by Chaoda. The Chaoda Group is a group of companies principally engaged in the agricultural produce and live stock businesses. The Group and the Chaoda Group have distinct businesses and they each have their own management team, administrative and sales support, plantation bases and facilities, operations, research and development teams and customers. The Chaoda Group has in the past produced winter oranges at its research and development centre at Beifeng Guo Yuan located in the Fujian province, PRC. However, the Directors have confirmed that, as far as they are aware, the Chaoda Group has never sold or otherwise distributed its oranges produced for its research and development purpose directly or indirectly to the general public.

In entering into the Relationship Agreement, further details of which are set out in paragraph 8 below, the Chaoda Group has agreed to cease all its orange related research and development activities in the PRC immediately following Admission in order to avoid any potential competition with the Group.

#### 4.6 ***Control and Change of Control***

Market Ahead and Huge Market were interested in approximately 80.2 per cent in aggregate of the issued share capital of the Company as at the date of this document. Mr Tong Wang Chow and Mr Tong Hung Wai, Tommy, who own in aggregate 82 per cent of the issued share capital of Market Ahead, are Executive Directors of the Company. Mr Ip Chi Ming, a Non-Executive Director of the Company, is also an executive director of Chaoda, the parent company of Huge Market. Through their substantial indirect holdings in the Company, Mr Tong Wang Chow, Mr Tony Hung Wai, Tommy and Mr Ip Chi Ming are able to exercise significant influence over certain matters requiring shareholder approval, including the election of Directors and the approval of significant corporate transactions and any other transactions requiring a majority vote.

As set out above, the Chaoda Group has agreed to cease all its orange related research and development activities in the PRC and to not produce any oranges, whether for sale or as part of their research programme, immediately following Admission. In addition, the Company has entered into the Relationship Agreement as set out in paragraph 8 below. There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change of control of the Company.

## 5. Directors' service arrangements

The following Executive Directors have entered into service agreements with the Company, details of which are set out below.

<i>Director</i>	<i>Title</i>	<i>Date of Service Agreement</i>	<i>Remuneration per annum</i>
Mr Tong Wang Chow	Chairman and Chief Executive Officer	1 July 2005	HK\$1,300,000
Mr Tong Hung Wai, Tommy	Executive Director	1 July 2005	HK\$780,000
Mr Cheung Wai Sun	Executive Director	1 July 2005	HK\$650,000
Mr Pang Yi	Executive Director	1 July 2005	HK\$650,000
Mr Sung Chi Keung	Executive Director	15 January 2007	HK\$780,000

- 5.1 The Company has entered into a service agreement with Mr Tong Wang Chow which came into effect on 3 August 2006. The contract provides for Mr Tong to act as the Executive Chairman and Chief Executive Officer of the Company at a salary of HK\$1,300,000 per annum. The contract has no fixed term and is terminable by 12 months' notice in writing by the Company and by 3 months' notice in writing by Mr Tong. Under the contract, Mr Tong is entitled to 21 paid working days holiday each year, medical insurance and life assurance (covering accidental death). He is subject to a non-compete covenant for a period of 12 months following termination of his employment and non-solicitation of customers and key employee covenants for a period of 12 months following termination of his employment and he is also subject to a confidentiality undertaking during that time.
- 5.2 The Company has entered into a service agreement with Mr Tong Hung Wai, Tommy on terms (not including remuneration) identical to those of Mr Tong Wang Chow set out in paragraph 5.1 above.
- 5.3 The Company has entered into a service agreement with Mr Cheung Wai Sun on terms (not including remuneration) identical to those of Mr Tong Wang Chow set out in paragraph 5.1 above.
- 5.4 The Company has entered into a service agreement with Mr Pang Yi on terms (not including remuneration) identical to those of Mr Tong Wang Chow set out in paragraph 5.1 above.
- 5.5 The Company has entered into a service agreement with Mr Sung Chi Keung on terms (not including remuneration) identical to those of Mr Tong Wang Chow set out in paragraph 5.1 above.

The following Non-Executive Directors have entered into letters of appointment in connection with services to be provided to the Company:

<i>Non-Executive Director</i>	<i>Date of Appointment Letter</i>	<i>Initial term (years)</i>	<i>Fee per annum</i>
Mr Ip Chi Ming	1 July 2005	3	HK\$600,000
Mr Ma Chiu Cheung, Andrew (Independent)	1 July 2005	3	£31,000
Dr Hon Lui Ming Wah, JP (Independent)	1 July 2005	3	HK\$240,000
Mr Yang Zhen Han (Independent)	1 July 2005	3	HK\$240,000
Mr Nicholas Smith (Independent)	1 July 2005	3	£31,000
Hon Peregrine Moncreiffe	1 February 2006	3	HK\$240,000

- 5.5 Mr Ip Chi Ming is engaged by the Company as a Non-Executive Director on the terms of a letter of appointment dated 1 July 2005 for an initial term of 3 years commencing 18 November 2003, terminable on one month's written notice from either party. Mr Ip will receive a fee of HK\$600,000 per annum, which is payable in monthly instalments. Mr Ip's letter of appointment includes restrictions in respect of conflicts of interest and confidential information. Mr Ip was re-elected at the Annual General Meeting of the Company on 1 December 2006.

- 5.6 Mr Ma Chiu Cheung, Andrew, is engaged by the Company as a Non-Executive Director for an initial term of 3 years commencing 29 July 2004 on terms (other than as to the date of appointment, fees and expenses) identical to those of Mr Ip Chi Ming set out in paragraph 5.5.
- 5.7 Dr Hon Lui Ming Wah is engaged by the Company as a Non-Executive Director for an initial term of 3 years commencing 2 June 2004 on terms (other than as to the date of appointment and fees) identical to those of Mr Ip Chi Ming set out in paragraph 5.5. Dr Lui was re-elected at the Annual General Meeting of the Company on 1 December 2006.
- 5.8 Mr Yang Zhen Han is engaged by the Company as a Non-Executive Director on terms identical to those of Dr Hon Lui Chi Ming Wah set out in paragraph 5.7. Mr Yang was re-elected at the Annual General Meeting of the Company on 1 December 2006.
- 5.9 Mr Nicholas Smith is engaged by the Company as a Non-Executive Director for an initial term of 3 years commencing 1 July 2005 on terms (other than as to the date of appointment, fees and expenses) identical to those of Mr Ip Chi Ming set out in paragraph 5.5.
- 5.10 Hon Peregrine Moncriffe is engaged by the Company by a letter of appointment dated 1 February 2006 for an initial term of 3 years commencing 1 February 2006 as a Non-Executive Director on terms (other than as to the date of appointment, fees and expenses) identical to those of Mr Ip Chi Ming set out in paragraph 5.5.
- 5.11 The aggregate of the remuneration paid and benefits in kind granted to the Directors of the Company in respect of the year ended 30 June 2006 was RMB5,983,000.
- 5.12 It is estimated that the aggregate remuneration payable and benefits in kind to be granted to the Directors under arrangements in force at the date of this document (including pension contributions) from any member of the Group in respect of the year ended 30 June 2007 will be approximately RMB4,151,000 for Executive Directors and RMB2,289,000 for Non-Executive Directors.
- 5.13 Save as set out above, there are no existing or proposed service contracts between any of the Directors and the Company or any member of the Group and there are no existing or proposed service contracts between any of the Directors and the Company or any member of the Group which provides for benefits upon termination of employment.

## **6. The Asian Citrus Share Option Plan**

The Company has established in connection with Admission, a company share option plan, details of which are set out in this paragraph.

### **Summary of the principal features of the Share Option Plan**

#### **6.1 *The Share Option Plan***

The Share Option Plan was adopted by the Company on 29 June 2005.

#### **6.2 *Administration***

The Share Option Plan is administered by a committee of the Board of the Company (the "Committee") in accordance with its rules.

#### **6.3 *Eligible employees***

Options may be granted to such employees including directors who are required to devote substantially the whole of their working time to the Company or any of its participating subsidiaries as the Committee shall select.

#### **6.4 *Grant of options***

Options may be granted within the period of 42 days following the dealing day immediately following the preliminary announcement of the consolidated annual or half yearly results of the Company for any financial period; the expiry of restrictions imposed on the Company; the announcement or coming into force of any amendments to legislation affecting share option plans or at any other time if the Committee in its absolute discretion resolves that it is appropriate to grant options. Options are over Ordinary Shares. No option may be granted later than ten years from the date of adoption of the Share Option Plan. Options granted under the Share Option Plan are personal to the option holder and may not be transferred. Benefits under the Share Option Plan will not be pensionable.

## 6.5 *Exercise price*

The exercise price at which options may be exercised is determined by the Committee and will be not less than the greater of:

- (a) the nominal value of an Ordinary Share if Ordinary Shares are to be subscribed; and
- (b) at any time when the Ordinary Shares are listed, the middle-market quotation of an Ordinary Share as derived from the AIM Appendix to the Daily Official List on the dealing day immediately preceding the date of grant of an option (or if the Committee so determines, the average of such quotations for the three dealing days immediately preceding the date of grant of an option) provided that such dealing days must fall within the grant period referred to in paragraph 6.4 above.

No consideration is payable for the grant of an option.

## 6.6 *Limit*

No option may be granted under the Share Option Plan if, as a result, the aggregate number of Ordinary Shares issued and issuable pursuant to options granted under the Share Option Plan, or under any other employees' share plan adopted by the Company in general meeting would in any period of 10 years (commencing at least three months following Admission) exceed 10 per cent of the issued ordinary share capital of the Company from time to time.

### *Individual limit*

In any financial year an eligible employee may not be granted options under the Share Option Plan and any other company share option plans established by the Company over Ordinary Shares worth more on the date of grant than a maximum of 200 per cent of such employee's annual remuneration.

Options granted before the expiry of three months from the AIM Admission will not be counted towards these limits.

## 6.7 *Exercise of options*

6.7.1 An option will not normally be exercisable before the expiry of one year from the date of grant. An option may be exercisable earlier if the option holder dies, if the option holder's employment terminates by reason of injury, disability, ill-health, redundancy, retirement at normal retirement age or his employer ceasing to be a member of the Group, early retirement, or because the business in which he is employed is transferred out of the Group. If an option holder ceases to be employed for any other reason his options will lapse unless the Committee determines otherwise. Options will lapse at the expiry of ten years from the date of grant. Special provisions apply in the event of a takeover or liquidation of the Company.

6.7.2 The exercise of options will normally be subject to objective performance target(s) which will be specified on the grant of any option.

The exercise of options granted is restricted so that they may, under the Share Option Plan, only be exercised as to 10 per cent of the Ordinary Shares subject to the option for each year that the option is held. The option would therefore only be capable of exercise in full 10 years from the date of grant.

## 6.8 *Ordinary Shares*

Ordinary Shares issued on the exercise of an option will rank *pari passu* with existing Ordinary Shares except for any rights attached to such Ordinary Shares by reference to a record date prior to the date of allotment. The Company will use its reasonable endeavours to obtain admission to trading on AIM for any Ordinary Shares so allotted.

## 6.9 *Variation of share capital*

On any variation or reorganisation of the share capital of the Company by way of rights or capitalisation issue or by consolidation, sub-division or reduction of capital or otherwise, the Committee may make such adjustments as it considers appropriate to the exercise price and/or the number and/or the denomination of Ordinary Shares comprised in an option, provided that

there is no increase in the exercise price or reduction below nominal value. No such adjustment may be made without the prior written confirmation from the Company's auditors that it is in their opinion fair and reasonable.

#### 6.10 *Amendments to the Share Option Plan*


The Board may amend the Share Option Plan at any time in any respect.

No amendment may be made to alter to the material disadvantage of any option holder any rights already acquired by him without the consent of option holders holding options over at least 75 per cent of the Ordinary Shares under option under the Share Option Plan.

6.11 Upon the issue of the New Ordinary Shares, the Board will consider whether the terms of existing options need to be varied to take account of the Placing (to such an extent and in such manner as the Company's auditors confirm is fair and reasonable).

### 7. **Intellectual property**



#### 7.1 *PRC Trademarks*

The trade mark registration certificates issued by the Trade Mark Bureau of the State Administration of Industry and Commerce show that Lucky Team (Hepu) is the registered proprietor of the trade marks of “新雅奇” (“xinyaqi”) logo and the  logo in the PRC. Lucky Team (Hepu) has been selling its produce in the PRC under these trade marks. As registered proprietor of these trade marks, Lucky Team (Hepu) has the legal right to use these trade marks on the produce sold in the PRC. The earliest expiry date of these trade mark registrations is 13 October 2012.

Lucky (Hepu) also has a trademark application pending (application No 1997118 for YAQI in International Class 31).

#### 7.2 *Non-PRC Trademarks*

Asian Citrus Management is the registered proprietor of the two marks,  and  and Asian Citrus is the registered proprietor of the “” logos in Hong Kong.

Asian Fruits is the registered proprietor of the marks,  (PANDA logo) and  (Mr. Sun logo), both in International Class 31.

The earliest expiry date of these non-PRC trade mark registrations is 14 July 2014.

#### 7.3 *Domain name registration*

Asian Citrus is the registered proprietor of the domain name “asian-citrus.com”. The domain name registration is currently valid.

Save as disclosed above, none of the Group companies:

- (a) has entered into any trade mark licensing arrangement with a third party or each other; or
- (b) is using other intellectual property rights without authorisation or licence in or outside the PRC. The Group has confirmed that it does not own any non-registrable intellectual property rights.

### 8. **Material contracts**

The following contracts are the only contracts (not being entered into in the ordinary course of business) which have been entered into, or are expected to be entered into prior to Admission by members of the Group, within the two years immediately preceding the date of this document and are, or may be, material and contain provisions under which any member of the Group has any obligation or entitlement which is or may be material to the Group as at the date of this document:

#### (a) *Relationship Agreement*

The Relationship Agreement was entered into on 28 July 2005, and is between the Company (1), Huge Market (2), Market Ahead (3), Chaoda (4), Kailey Investment Limited (5), Mr Kwok Ho (6) and Mr Tong Wang Chow (7).

Each Asian Citrus Shareholder has undertaken severally to exercise its powers in relation to the Company to ensure that (a) the Company is capable of carrying on its business independently of the Asian Citrus Shareholders; and (b) that all transactions and relationships between the Company and the Asian Citrus Shareholders are conducted at arm's length and on a normal

commercial basis. The obligations in the Relationship Agreement do not prevent the parties from complying with their obligations under the Original Convertible Bonds Subscription Agreement.

Each Asian Citrus Shareholder has undertaken also to abstain from voting in general meetings of the Company in respect of any contract or arrangement in which it has a material interest, and not to exercise its voting rights in favour of any amendment to the Bye-laws of the Company which would be inconsistent with or in violation of the terms of the Relationship Agreements.

Each of the Asian Citrus Shareholders has additionally agreed and covenanted with the Company that it will not, subject to certain limited exceptions, in the PRC, Hong Kong, Macau, Taiwan, Japan, Thailand, Singapore, Vietnam, Canada, the US or Europe engage or invest in the business of cultivation, supply, marketing, sale or research and development of any type of orange or lemon or any associated produce.

Each of Mr Tong Wang Chow, Mr Kwok Ho, Market Ahead, Huge Market, Chaoda and Kailey Investment Limited has agreed to cease, and to use its best endeavours to procure that its subsidiaries (other than any member of the Group) ceased to engage in the sale, marketing and/or distribution of winter oranges cultivated or otherwise grown by it and/or its subsidiaries (other than any member of the Group) prior to the AIM Admission, if applicable.

In relation to each of Market Ahead, Huge Market, Chaoda and Kailey Investment Limited, the undertakings, agreements and covenants given by it under the Relationship Agreement have full force and effect (i) so long as it and/or its subsidiaries shall, singly or together, have an interest in Ordinary Shares with not less than 10 per cent of the voting rights in the Company; and (ii) for one year thereafter.

In relation to each of Mr Tong Wang Chow and Mr Kwok Ho, the undertakings, agreements and covenants given by him under the Relationship Agreement have full force and effect (i) so long as he and/or his associates, will individually or together, have an interest in Ordinary Shares with not less than 10 per cent of the voting rights of the Company; and (ii) for one year thereafter.

The undertakings, agreements and covenants given by the Asian Citrus Shareholders, cease to have any effect should the Ordinary Shares cease to be listed or traded on AIM.

(b) *Placing Agreement*

Pursuant to an agreement dated 28 March 2007 between and among the Company, the Selling Shareholders and JPMorgan Cazenove (the "Placing Agreement"):

- (i) The Company and the Selling Shareholders have agreed, subject to determination of the Placing Price and to certain other conditions, to issue and sell, as the case may be, the Placing Shares to be issued and sold under the Placing at the Placing Price.
- (ii) JPMorgan Cazenove has agreed, subject to determination of the Placing Price and certain other conditions that are typical for an agreement of this nature, including Admission and deciding to proceed with the Placing, to procure subscribers and purchasers for the Placing Shares to be issued and sold under the Placing at the Placing Price.
- (iii) The obligations of the Company to issue New Ordinary Shares and the obligations of JPMorgan Cazenove to procure subscribers and/or purchasers for the Placing Shares to be issued and sold under the Placing are subject to certain conditions including, among others, Admission occurring by not later than 8.00 a.m. on 3 April 2007 or such later time and/or date as JPMorgan Cazenove may agree with the Company (being not later than 8:00 a.m. on 30 April 2007). JPMorgan Cazenove may terminate the Placing Agreement in certain circumstances that are typical for an agreement of this nature prior to Admission. These circumstances include the occurrence of certain significant changes in the condition (financial or otherwise), prospects or earnings of the Company or any other member of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Placing Agreement).
- (iv) The Company has agreed to pay or cause to be paid (together with any related value added tax) certain costs, charges, fees and expenses of, or in connection with, or incidental to, among others, the Placing, Admission or the other arrangements contemplated by the

Placing Agreement. The Selling Shareholders have agreed to pay or cause to be paid (together with any related value added tax thereon), certain costs, charges, fees and expenses in connection with the sale of the Sale Shares under the Placing.

- (v) The Company has given certain warranties, undertakings and indemnities to JPMorgan Cazenove. The Selling Shareholders have each given certain warranties, undertakings and indemnities to JPMorgan Cazenove.
- (vi) Subject to certain exceptions, the Company has undertaken, among other things, not to issue Ordinary Shares or undertake certain other transactions which may be material in the context of the Placing for a period of six months from Admission, without the prior written consent of JPMorgan Cazenove. The Selling Shareholders have given similar undertakings not to sell Ordinary Shares.

(c) *Original Convertible Bonds Subscription Agreement*

- 1.1 Pursuant to the Original Convertible Bonds Subscription Agreement, Newasia issued the Original Convertible Bonds in the aggregate principal amount of HK\$100 million in favour of the Bondholders. In accordance with the Original Convertible Bonds Subscription Agreement, the proceeds from the issue of the Notes are to be applied towards funding the development of the Hepu Plantation and the Xinfeng Plantation.
- 1.2 In accordance with the Original Convertible Bonds Subscription Agreement, Newasia issued the Original Convertible Bonds to the Bondholders on 16 March 2005. The Original Convertible Bonds paid a coupon of 5 per cent per year, payable semi-annually in arrears on 16 September and 16 March each year, commencing on 16 March 2005. The Bondholders may convert the Original Convertible Bonds into shares in Newasia at any time from 16 March 2005 until 15 March 2008 at a conversion price of HK\$8,147.88 per share, subject to adjustments as stipulated in the conditions of the Original Convertible Bonds. The Bondholders may transfer or assign the Original Convertible Bonds to third parties, except to those engaging in the same business as the Group. The assignment and transfer of the Original Convertible Bonds must be effected in integral multiples of HK\$500,000. The principal amount and interest due under the Original Convertible Bonds must be repaid in full by 15 March 2008. Prior to such date and subject to a lock-up period of six months from the date of the AIM Admission, Newasia may redeem the Original Convertible Bonds in part or in full, provided that the Original Convertible Bonds, if, at the time of redemption, were converted into shares, would (taking into account of any interest that has been paid to the Bondholders) yield a return of 30 per cent or more of the principal amount of the Original Convertible Bonds. Should the existing Shareholders sell their entire shareholding in Newasia, the Bondholders are entitled to require Newasia to redeem the bonds at a rate which will yield an annual return of 25 per cent for the period between the subscription date and the redemption date.
- 1.3 Other material terms of the Original Convertible Bonds Subscription Agreement and the Original Convertible Bonds are set out below as follows:

(a) *Corporate governance*

Under the Original Convertible Bonds Subscription Agreement, so long as the Original Convertible Bonds on the Convertible Bonds remain outstanding, the Bondholders are entitled jointly to appoint one representative as a “non-executive” director to Newasia’s board. See sub-paragraph 1.4 below for further details.

(b) *Obligations and undertakings of the existing Shareholders*

Pursuant to the Original Convertible Bonds Subscription Agreement, the existing shareholders of Newasia undertook not to sell, transfer or assign, or otherwise create any security interests or encumbrance over their shares until (i) there is a listing of shares in Newasia or the proposed listed company, or (ii) the entire issued share capital of Newasia is sold. Where any of the existing shareholders has received a *bona fide* offer from a third party purchaser, the Bondholders have “tag along” rights which require such shareholder to procure the purchase of the Bondholders’ conversion shares along with the shares being sold by the existing shareholders. Pursuant to the conditions of the Original Convertible Bonds, if the existing shareholders sell all of the shares in Newasia held by them, the Bondholders may require the Company to redeem each Original Convertible Bond.

(c) *Obligations of Newasia*

Newasia must maintain a gearing ratio of 40 per cent or less and an interest coverage ratio (as defined in the Original Convertible Bonds Subscription Agreement) of not less than four for the period that the Original Convertible Bonds remain outstanding. Newasia has given certain representations and warranties in favour of the Bondholders and agrees to indemnify the Bondholders against any loss resulting from the breach of such warranties. The liability of Newasia has been capped at the higher of (i) the outstanding principal amount plus interest or (ii) the fair or market price of the conversion shares had the outstanding principal under the Original Convertible Bonds been converted.

(d) *Listing*

In contemplation of a listing, the Original Convertible Bonds conditions of the Metage Notes provided that the Metage Notes, to the extent that they have not been redeemed or converted into shares in Newasia, shall be cancelled and exchanged for notes to be issued by Asian Citrus on the same terms and conditions, provided that each Noteholder shall be entitled to the same shareholding in the listed company as held in Newasia. Should the Bondholders wish to retain any or all of the conversion shares, their rights over the conversion shares are subject to a lock up of 6 months from the AIM Admission date, or longer as required by the relevant stock exchange or the relevant rules and regulations.

- 1.4 The Bondholders were entitled to have the Original Convertible Bonds cancelled and exchanged for Convertible Bonds to be issued by Asian Citrus. The Original Convertible Bonds were cancelled and new convertible notes (the “Convertible Bonds”) were issued to the Bondholders by Asian Citrus on 14 July 2005. Asian Citrus agreed with Metage Funds and Metage Special Emerging Markets Fund that the Convertible Bonds were issued to them on, save for the following provisions, the same terms and conditions as the Original Convertible Bonds:

- the Convertible Bonds do not bear any interest; and
- Metage Funds and Metage Special Emerging Markets Fund will, so long as the New Metage Notes remain outstanding, have the joint right to appoint one representative as a Non-Executive Director to the Board.

Bondholders exercised their right to appoint a Non-Executive Director to the Board in appointing Hon Peregrine Moncreiffe on 1 February 2006.

- 1.5 It is understood that Metage Funds and Metage Special Emerging Markets Fund intend to give notice (the “Conversion Notices”) to the Company of their intention to convert the Metage Funds Convertible Bonds and the Metage Special Emerging Markets Fund Convertible Bonds respectively. Pursuant to the Conversion Notices, it is expected that, on or prior to 3 April 2007, the Conversion Shares will be issued in accordance with the terms of the Conversion Notices, at the Conversion Price (as defined in the Terms and Conditions of the Convertible Bonds).

(g) *Lock-up Agreement*

Pursuant to an agreement dated 28 March 2007 between and among the Company, the Directors (other than Mr Pang Yi) and JPMorgan Cazenove (the “Lock-up Agreement”), subject to certain exceptions, each of the Directors has undertaken, among other things, not to offer, issue or sell additional Ordinary Shares (or any interest therein or in respect thereof) for a period of six months from Admission, without the prior written consent of JPMorgan Cazenove.

Each of Huge Market and Market Ahead has undertaken to the Company and JPMorgan Cazenove, where reasonably possible and subject to certain conditions, not to dispose of their Ordinary Shares prior to 18 October 2007 otherwise than through JPMorgan Cazenove for such time as it shall remain broker to the Company.

Further details on Company and Selling Shareholder lock-up arrangements are set out under the paragraph headed, “*Lock-up arrangements*” in Part V of this document.

(h) *Nan Chen Real Estate Management Contract with Nan Chen Ji Real Estate Development Company Limited*

On 26 March 2007 Lucky Team (Ganzhou) and Nan Chen Ji entered into a property management contract, amending the previous agreement between the two parties dated 28 February 2006, for the development, operation and management of real estate projects in Xinfeng County, Jiangxi. Pursuant to this management contract, Nan Chen Ji will be responsible for the development, sale, operation and management of the Jiangxi Xinfeng Jiangxin agricultural trade and wholesale market project of Lucky Team (Ganzhou) situated at Section No 1, Gongye Road, Xinfeng, Jiangxi, with a total area of approximately 49 acres. While Lucky Team (Ganzhou) will be providing all the capital funds and land required for construction of this project, Nan Chen Ji will be remunerated with a 20 per cent of the after-tax profit generated from unit sales of this project.

Two additional side letters dated 28 August 2006 and 18 September 2006 were entered following the original 28 February 2006 agreement, determining the limits of total capital funds which Lucky Team (Ganzhou) be required to provide of RMB35 million and RMB55 million, respectively. The side letters are deemed to have continuing effect notwithstanding the amendment of the original 28 February 2006 agreement.

(i) *Hunan Plantation Memorandum of Understanding*

On 12 March 2007, the Company (through its subsidiary, Newasia Global Limited) entered into a memorandum of understanding with the Dao County government in relation to the Hunan Plantation (“Hunan Plantation Memorandum of Understanding”). Pursuant to the terms of the Hunan Plantation Memorandum of Understanding, the Dao County government has agreed, among other things, to apply, to the extent that it is within its power to do so, reduced tax rates to the Company and to assist in the process of negotiating lease agreements with the various local land owners at the Hunan Plantation.

(j) *Asian Fruits Joint Venture Agreement*

On 26 March 2007, Access Fortune Investment Limited (“Access Fortune”), a subsidiary of the Company entered into an agreement in relation to the Group’s existing fruit trading joint venture arrangement with Calfruits (the “Asian Fruits Joint Venture Agreement”).

The key terms of the Asian Fruits Joint Venture Agreement are set out below.

- (i) Access Fortune will hold 46 per cent of the issued share capital of Asian Fruits.
- (ii) The purposes of the joint venture is to purchase citrus (mostly oranges) and other fruits principally in the PRC for sale outside the PRC to customers introduced exclusively by Calfruits.
- (iii) Calfruits will assume the role of sales agent for the joint venture and, accordingly is responsible for negotiating sales contracts.
- (iv) The board of Asian Fruits comprises five members, two of which can be appointed by Access Fortune.
- (v) Unanimous board consent is required for certain matters including merger or acquisition activities and the taking on of any bank debt.

## **9. Related party transactions**

The Company has entered into several material transactions with related parties since incorporation, the details of which are set out below.

### **9.1 Lucky Team (Hepu) Fertiliser Purchase Contracts**

Lucky Team (Hepu) has purchased the fertilisers required for its operations from Zhangzhou Chaoda and Weizhou Chaoda which are both related parties of Lucky Team (Hepu) by virtue of Mr Kwok Ho’s interests in them. The entire registered share capital of Zhangzhou Chaoda and Weizhou Chaoda are indirectly held by Mr Kwok Ho, a director of Lucky Team (Hepu) and a substantial shareholder of Chaoda. Chaoda is in turn the holding company of Huge Market, which holds approximately 49 per cent of the shareholding in Newasia, the parent company of Lucky Team (Hepu).

Lucky Team (Hepu) entered into six purchase contracts with Zhangzhou Chaoda dated 17 January 2002, 22 December 2002, 16 December 2003, 21 December 2004, 26 December 2006 and 28 December 2006 respectively. The terms of these contracts are substantially similar and the key terms are set out below.

- (a) Zhangzhou Chaoda supplies Lucky Team (Hepu) with fertiliser at the price of RMB 1,500 per tonne (the amount of fertiliser supplied under the six contracts are 7,000 tonnes, 7,000 tonnes, 7,500 tonnes, 8,000 tonnes, 1,000 tonnes and 7,000 tonnes respectively);
- (b) the fertilisers are delivered to the warehouses of Lucky Team (Hepu) in Hepu County and at the suppliers' cost;
- (c) the fertilisers must meet the quality and technical standards stipulated by Lucky Team (Hepu);
- (d) Lucky Team (Hepu) has the right to reject the products within 15 days of delivery and refuse payment for non-conforming products;
- (e) payment for the fertiliser is made by Lucky Team (Hepu) on a monthly basis by cash or by telegraphic transfer; and
- (f) any party failing to perform its obligations pursuant to the relevant contract is subject to a fixed penalty of RMB200 per day (without prejudice to the right to claim for further damages).

Lucky Team (Hepu) has also entered into five purchase contracts for fertiliser with Weizhou Chaoda under which, Weizhou Chaoda are to supply Lucky Team (Hepu) with fertiliser at a price of RMB1,500 per tonne. The amount of fertiliser to be supplied under the five contracts ranges between 3,000 and 4,000 tonnes. Other terms contained in these contracts are substantially similar to those as provided for under the contracts with Zhangzhou Chaoda as set out above.

On 13 January 2006, 8 January 2007 and 11 January 2007 Lucky Team (Xinfeng) entered into fertiliser purchase agreements with Zhangzhou Chaoda and Weizhou Chaoda respectively. The terms of these contracts are substantially similar to the key terms that are set out above.

## 9.2 *Newasia*

On 30 July 2005, Newasia signed a tenancy agreement with Pan Air and Sea Forwarders (H.K.) Limited ("Pan Air and Sea Forwarders") for use of the offices and facilities at Rooms 1109 and 1111, Wayson Commercial Building, 28 Connaught Road West, Central, Hong Kong. Pan Air and Sea Forwarders is a related party of Newasia by virtue of the Tong family's interests in it. The tenancy has a two year term commencing on 1 August 2008 with a monthly rent of HK\$16,140. The tenancy agreement does not provide for rent reviews nor is there is a specific provision dealing with renewal of the agreement.

Saved as indicated above, the Company has confirmed that it has not entered into any other related party transactions, and the Directors believe that all of the above transactions were entered into on an arm's length basis.

The percentage of the turnover of the Company accounted for by related party transactions is approximately 5.1 per cent for the year ended 30 June 2006.

## 10. **Summary of land information**

Set out below is a summary of the material terms of the leases entered into by the Group in respect of land at both the Hepu and Xinfeng Plantations.

### 10.1 *Hepu Plantation*

Newasia has entered into 88 Hepu Leases with 84 collective economic entities comprising local village committees and production teams (the "Collectives") and one state owned entity in respect of the parcels of land on which the Hepu Plantation is located. The terms contained in each of the Hepu Leases are identical. A summary of the key terms of the Hepu Leases is set out below.

(a) *Duration, rent and payment terms*

The term of the leases is 50 years commencing on 25 June 2000. The leases do not contain any clauses granting Newasia any right to renew or extend the term. Accordingly, should Newasia wish to continue to occupy the land on which the Hepu Plantation is located following the expiry of the 50-year term, it will need to negotiate an extension or renewal with each of the lessors.

Rent of RMB60 per annum is payable for each approximately 0.07 sq. km of land leased. This amount is payable by Newasia in arrears every six months. The rent is subject to review every three years during the term of the leases. On review, the rent may be increased by an amount equal to 72.5 per cent of the average increase in the retail price index published by the State Statistic Bureau of the PRC for each of the three years preceding the adjustment.

(b) *Rights and obligations*

The lessors have acknowledged and agreed that the benefits under the leases may be enjoyed by either Newasia or its wholly-owned subsidiary Lucky Team (Hepu). The leases provide that Newasia has the right to use the land to conduct the activities as set out in the business licence of Lucky Team (Hepu), including farming and processing crops and the construction and maintenance of ancillary facilities necessary for the conduct of such business activities. Newasia is permitted to use the adjacent road, water resources (at preferential rate if any fee is to be charged), and canals and has the right to install electricity and telecommunications cables. The lessors have also agreed to lease the land to Newasia free from any encumbrance and to indemnify Newasia against any losses incurred by Newasia arising from claims brought by third parties relating to Newasia's right to use the land. Under the leases, Newasia is required to manage its operations in accordance with applicable PRC law and good farming practice, to preserve the land, maintain the irrigation system and the soil and surrender the land on expiry of the lease in a state suitable for farming in no worse condition than when the lease was entered into. Newasia may assign its rights under the leases to Lucky Team (Hepu) or any other affiliated companies without the consent or approval of the respective lessors. However, if the rights are to be assigned to a non-affiliated company, the prior approval of the lessor must be obtained.

(c) *Events of termination*

- (i) Newasia may terminate any of the leases by giving 30 days' prior written notice to the respective lessor if:
  - (1) Lucky Team (Hepu) is unable to continue its business operation in accordance with its articles of association or use the land in connection with its business due to "business or financial reasons", a force majeure event occurs which lasts over 90 days or (in Newasia's sole discretion) or in the event that its operation or the financial performance of its business are deemed "unsatisfactory";
  - (2) Newasia or any of its affiliates ceases to exercise control over the management or assets of Lucky Team (Hepu) as a result of the acts or decisions of the PRC Government or any of its agents; or
  - (3) the lessor is in material breach of its obligations under the lease or any other contract between Newasia (or its affiliates) and the lessor and fails to remedy the breach within 60 days after Newasia has given notice to remedy the breach.
- (ii) The lessors may terminate their respective leases by giving 30 days' prior written notice to Newasia if:
  - (1) any rent is overdue for 30 or more days and Newasia fails to pay such rent within 60 days after the lessor has issued a notice to terminate the lease; or
  - (2) Newasia is in material breach of its obligations under the lease and fails to remedy such breach within 60 days after the lessor has given Newasia notice to remedy the breach.

## 10.2 *Xinfeng Plantation*

Newasia entered into the Xinfeng Lease with the Xinfeng County Government. Set out below is a summary of the key terms of the Xinfeng Lease.

### (a) *Duration, rent and payment terms*

The term of the lease is 50 years commencing from 25 September 2002. While there is no express provision granting Newasia any right to renew or extend the term beyond the initial 50 years, the lease provides that upon the expiry of the term, the parties may negotiate for an extension or renewal of the lease.

Rent of RMB60 per annum is payable for each approximately 0.07 sq. km of land leased. This amount is payable in arrears every six months. Newasia is also required to make additional payments for any use of the adjacent paddy fields and ponds.

### (b) *Rights and obligations*

Under the lease, Newasia is entitled to build and/or develop facilities including office buildings, a warehouse, cold storage facilities, staff quarters and a processing plant.

The Xinfeng Government has, among other things, agreed to:

- (i) undertake all necessary steps in relation to Certificates of Other Rights on Land to ensure that the Xinfeng Lease is valid and effective;
- (ii) waive any government fees for the development of the Xinfeng Plantation;
- (iii) clear any vegetation on the land at its cost, to enable Newasia to develop the Xinfeng Plantation;
- (iv) grant Newasia all state, provincial, city and county benefits and privileges permitted under the investment policies applicable to the fruit industry and general investment; and
- (v) ensure that any applicable special agricultural tax would be waived during the first eight years of planting at the Xinfeng Plantation. Thereafter, preferential treatment will be granted to Newasia in accordance with relevant policies.

### (c) *Events of termination*

The lease does not contain any termination provisions. The Xinfeng Government has however guaranteed that during the term of the lease, the legal owners of the land (ie, the Collectives) will not interfere with the Group's operations, nor take any steps to recover the land from Newasia. The Xinfeng Government also agreed to assist Newasia in resolving any disputes in relation to the land involving any third parties. In order to continue to occupy the Xinfeng Plantation, upon the expiry of the initial 50-year term of the lease, Newasia will need to negotiate with the Xinfeng Government with a view to executing a new agreement for extending the term of the lease.

## 11. **Arrangements with JPMorgan Cazenove**

### 11.1 *Nominated adviser and broker agreement*

On 3 August 2006, the Company terminated its nominated adviser and broker agreement with Evolution Securities and entered into a new nominated adviser and broker agreement with JPMorgan Cazenove (the "Nominated Adviser and Broker Agreement") pursuant to which, the Company appointed JPMorgan Cazenove to act as nominated adviser and broker to the Company for the purposes of the AIM Rules commencing with immediate effect and continuing thereafter. Under the Nominated Adviser and Broker Agreement, the Company has agreed to pay JPMorgan Cazenove a fee of £100,000 per annum (plus any applicable VAT) for its services as nominated adviser and broker under the agreement. This fee is payable in advance from 3 August each year provided that, for the first year (the year from 3 August 2006), this fee will not become payable as long as it is fully offset by a fee payable by the Company to JPMorgan Cazenove as a result of an equity issuance by the Company completed prior to 30 June 2007. The agreement contains certain undertakings given by the Company. The agreement is subject to termination on the giving of three months' notice by either party to the other. The agreement may also be terminated in certain other circumstances.

## 12. Insurance

12.1 Lucky Team (Hepu) has been issued with an insurance policy by PICC Property and Casualty Company Limited, Guangxi Branch (“PICC”) on 7 June 2005 in respect of its fixed assets for the value of up to RMB400 million. The key terms of the insurance policy are as follows:

- (a) the insured property includes all of the properties (i) owned by; (ii) put under the charge or in the custody of; (iii) operated or managed by; or (iv) that are otherwise the economic interests of Lucky Team (Hepu). Among other things, land, mineral deposit, mine, pit, forest, water resources and un-harvested or harvested but not yet stored agricultural products are excluded;
- (b) PICC will indemnify Lucky Team (Hepu) against any loss arising from fire, explosion, thunderstorms, rainstorms, floods, typhoons, violent storms, tornados, snow storms, hail storms, ice jam floods, mud rock slides, rock falls, sudden landslides and sudden land sinks, and any flying objects; and
- (c) PICC will not indemnify Lucky Team (Hepu) against, among other things, (i) any direct losses caused to the insured by any suspension of utilities supply; (ii) any loss caused as a result of Lucky Team (Hepu) failing to take reasonable and necessary preventative or remedial measures; (iii) war, hostilities, military action, armed conflict, strike, riots; (iv) intentional acts or acts of Lucky Team (Hepu); (v) any nuclear reaction, radiation and radioactive pollution; (vi) indirect losses; (vii) all losses caused by earthquake; (viii) damages resulting from the inherent defect or improper maintenance of the insured property; (ix) losses arising from the spoilage, deterioration, dampness, rodent, natural wear and tear, self-combustion and melting of the subject insured; (x) losses arising from the insured property being stored outdoors or under shed or losses caused by violent storm or rainstorm; (xi) losses resulting from administrative acts or law enforcement acts.

12.2 The Company has taken out insurance with AIG American International Underwriters Limited to cover directors’ and officers’ liability. The term of the policy which has a US\$5 million limit, commenced on 18 April 2006 and is for one year.

## 13. Taxation

### (a) *Bermuda taxation*

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation, will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of an exempted company held by non-residents of Bermuda.

The Company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda (and excludes the shares of other exempted companies). Transfers of Ordinary Shares and warrants in the Company are also exempt from stamp duty in Bermuda.

In addition, the Company has been granted an undertaking by the Minister of Finance at the Government of Bermuda under the Exempted Undertakings Tax Protection Act 1966 which exempts the Company until 28 March 2016, from any Bermuda tax computed on profits or income or on any capital asset, gain, appreciation, or any tax in the nature of estate duty or inheritance tax (apart from the application of any such tax or duties on such persons as are ordinarily resident in Bermuda and apart from taxes on land in Bermuda owned by or leased to the Company).

Though incorporated in Bermuda, the Company is classified as non-resident in Bermuda for exchange control purposes and, as such, is free to acquire, to hold and to sell any foreign currency or other assets (other than property situated in Bermuda) without restriction. The issue and transfer of Ordinary Shares of the Company between persons regarded as resident outside Bermuda for exchange control purposes may be effected without specific consent under the Bermuda Exchange Control Act 1972 and the regulations made thereunder for so long as the Ordinary Shares are listed on AIM.

As an exempted company, the Company is liable to an annual registration fee in Bermuda based on its assessable capital (being its authorised share capital and share premium (if any)). The minimum fee payable is US\$1,780 and the maximum fee is US\$27,825. The current fee for the Company is US\$9,345.

*(b) UK taxation*

The comments set out below are based on the assumption that the Company is not resident for tax purposes in the UK. The comments set out below are based on existing United Kingdom law and what is understood to be current HM Revenue and Customs practice. They are intended as a general guide only and apply only to persons resident or individuals ordinarily resident for tax purposes in the United Kingdom, who hold Ordinary Shares or Depositary Interests as an investment, otherwise than under an individual savings account, and who are the absolute beneficial owners thereof. Certain categories of Shareholder may be subject to special rules and this summary does not apply to such Shareholders. Shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

**(i) Transfer of assets abroad**

Sections 739 to 745 of the Taxes Act provide that the income accruing to the Company may be attributed to individuals ordinarily resident in the UK and such income may (in certain circumstances) be subject to UK income tax in the hands of such individuals. These provisions should not apply, however, if any such individual can satisfy the UK tax authority, HM Revenue and Customs (“HMRC”), that either:

(a) it would not be reasonable to draw the conclusion, from all the circumstances of the case, that the purpose of avoiding liability to taxation was the purpose, or one of the purposes, for which the subscription for shares, or any associated transaction were effected; or

(b) all the relevant transactions were genuine commercial transactions, and

it would not be reasonable to draw the conclusion, from all the circumstances of the case, that any one or more of those transactions was more than incidentally designed for the purpose of avoiding liability to taxation.

**(ii) General taxation of distributions**

Under present Bermuda law, tax will not be withheld from dividends paid by the Company. Individual holders of Ordinary Shares who are resident or ordinarily resident in the UK (for UK tax purposes) and who receive a dividend from the Company will be liable to UK income tax. This will be regarded as the top slice of the holder’s income and will be taxed at the applicable rate depending upon the individual’s circumstances.

A corporate holder of Ordinary Shares resident in the UK (for UK tax purposes) will generally be liable to UK corporation tax on the dividend income received from the Company.

In the light of announcements made in the Budget on 21 March 2007, individual holders of Ordinary shares may, in the future and subject to certain conditions, be entitled to receive a UK tax credit in respect of any dividend received from the Company. An individual will qualify for the tax credit if they hold less than a 10% shareholding in the Company and received dividends of less than £5,000 per annum. Subject to Royal Assent, these changes would have effect from 6 April 2008.

The value of the tax credit proposed is one ninth of the amount of the dividend received (or 10% of the aggregate of the amount of the dividend and tax credit (the “gross dividend”). The individual will be liable to income tax on the gross dividend which will be regarded as the top slice of his income for tax purposes and will be subject to UK income tax at the dividend rate of tax as described below.

Individuals who are not higher rate taxpayers will be liable to tax on the gross dividend at 10 per cent. This means that the tax credit will satisfy such individual’s liability to pay income tax in respect of the gross dividend and there will be no further tax to pay.

In the case of individuals who are liable to income tax at the higher rate, tax will be payable on dividends at the “dividend upper rate” (currently 32.5 per cent). The 10 per cent tax credit will be set against his liability to tax in respect of the gross dividend. Therefore, he will have to pay additional tax equal to 22.5 per cent of the gross dividend (or 25 per cent of the net dividend received).

UK resident taxpayers who are not liable to United Kingdom tax on dividends, including pension funds, charities and certain individuals such as those holding Shares through a personal equity plan or an individual savings account, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

**(iii) Disposition of Ordinary Shares and Depositary Interests**

Any UK domiciled individual Shareholders who are either resident or ordinarily resident in the UK will be subject to UK capital gains tax on gains realised on the sale of Ordinary Shares or Depositary Interests held in the Company.

Individual Shareholders who are not resident and not ordinarily resident in the UK and who do not carry on a trade in the UK will not be subject to UK income or capital gains tax in respect of income or gains arising on their Ordinary Shares or Depositary Interests.

UK resident corporate Shareholders will normally be subject to corporation tax on dividend income received from the Company. Chargeable gains arising on the disposal of Ordinary Shares or Depositary Interests held in the Company will also normally be taxable for UK-resident corporate Shareholders, subject to exemptions appropriate to their specific circumstances.

Taper relief applies to individual investors and trustees. The relief potentially reduces a chargeable gain assessable to capital gains tax and depends on the period the investment is held, and whether the investment is a “business” or “non-business” asset.

As well as taper relief an individual shareholder has an annual exemption to CGT. The annual exemption reduces chargeable gains after taking into account taper relief.

In the case of a shareholder within the charge to corporation tax, indexation allowance will apply to the amount paid for the shares.

**(iv) Stamp Duty and Stamp Duty Reserve Tax**

No liability to stamp duty or stamp duty reserve tax (“SDRT”) will arise on the allotment of New Ordinary Shares or Depositary Interests by the Company pursuant to the placing.

Any subsequent conveyance or transfer on sale of Ordinary Shares outside CREST will not normally be subject to stamp duty or SRDT provided the instrument of transfer is not executed in the UK and there is no matter or thing in relation to such transfer done, or to be done, in the UK.

Similarly an unconditional agreement to transfer such shares outside CREST will not normally give rise to SRDT, provided that both (a) the Ordinary Shares are not maintained on a share register in the UK, and (b) the Ordinary Shares are not paired with any UK shares.

Under the CREST system for paperless share transfers, no stamp duty or SRDT will arise on a transfer of shares into the system, unless the transfer into CREST is itself for consideration in money or money’s worth, in which case a liability to SRDT will arise, usually at a rate of 0.5 per cent of the amount or value of consideration given. Transfers or shares within CREST are generally liable to SDRT (at a rate of 0.5 per cent of the consideration paid) rather than *ad valorem* stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to HMRC by CREST Co.

Assuming that transfers of Depositary Interests operate without any written instrument or transfer or written assignment to transfer, no stamp duty will be payable by the purchasers of such Depositary Interests. However, SDRT at a rate of 0.5 per cent will be payable (generally by the purchaser) in respect of agreements to transfer Depositary Interests (whether electronic or written) because the Depositary Interests are chargeable securities for SDRT purposes and do not meet all the criteria set out for the SDRT exemption granted in the Stamp Duty Reserve Tax (UK Depositary Interests in Foreign Securities

Regulations 1999 (SI 1999/2383) as amended by SI 2000/1871 and SI 2001/3779. The Company will not be responsible for the payment of stamp duty or stamp duty reserve tax in any case.

The above statements are intended as a general guide to the current stamp duty and SDRT position. Certain categories of person, including market makers, brokers, dealers and persons connected with depository arrangements and clearance services, are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations of 1986.

(c) *United States federal income tax considerations*

THE UNITED STATES FEDERAL TAX CONSIDERATIONS CONTAINED HEREIN ARE NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED BY THE INTERNAL REVENUE CODE. THE UNITED STATES FEDERAL TAX CONSIDERATIONS CONTAINED HEREIN WERE WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTION DESCRIBED HEREIN. PROSPECTIVE INVESTORS SHOULD SEEK ADVICE FROM THEIR OWN INDEPENDENT TAX ADVISERS CONCERNING THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF AN INVESTMENT IN THE COMPANY BASED ON THEIR PARTICULAR CIRCUMSTANCES.

This summary is based upon the Code, Treasury Regulations promulgated thereunder, judicial decisions, and the Internal Revenue Service's (the "IRS") current administrative rules, practices and interpretations of law, all as in effect on the date of this document, and all of which are subject to change, possibly with retroactive effect. This summary also takes into account proposed Treasury Regulations regarding passive foreign investment companies, which are not currently in effect but would purport to apply on a retroactive basis (the "Proposed Regulations"). There can be no assurance as to whether, when or in what form the Proposed Regulations will be adopted as final Treasury Regulations.

For purposes of this summary, a "US Holder" means a person that is for United States federal income purposes (i) a citizen or resident alien of the United States, (ii) a corporation, or entity taxable as a corporation, created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust if: (a) a court within the United States is able to exercise primary supervision over the administration of such trust, and (b) one or more US persons have the authority to control all substantial decisions of such trust. If a partnership holds Ordinary Shares, the United States federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A partner of a partnership holding Ordinary Shares should consult its own tax advisers with respect to the United States federal income tax consequences of the acquisition and ownership of Ordinary Shares.

This summary is only a general discussion and is not intended to be, and should not be construed to be, legal or tax advice to any prospective investor. In addition, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a US Holder in light of such person's particular circumstances, including certain US Holders that may be subject to special treatment under the Code (for example, persons (i) that are tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts; (ii) that are financial institutions, insurance companies, real estate investment trusts, regulated investment companies, or brokers, dealers or traders in securities; (iii) that are subject to the alternative minimum tax provisions of the Code; (iv) that are pass-through entities or investors in pass-through entities such as partnerships; (v) that are former citizens or former long-term residents of the United States, in certain circumstances; or (vi) that own Ordinary Shares as part of a straddle, hedging, conversion transaction, constructive sale or other arrangement involving more than one position), US Holders that already own ordinary shares of the Company, and US Holders that hold Ordinary Shares other than as capital assets or that do not use the US dollar as their financial currency. Moreover, this summary does not include any discussion of state, local or non-US income or other tax consequences.

THE UNITED STATES FEDERAL INCOME TAX TREATMENT OF THE ORDINARY SHARES IS COMPLEX AND MAY BE POTENTIALLY UNFAVOURABLE TO US HOLDERS. ACCORDINGLY, EACH US HOLDER WHO ACQUIRES ORDINARY SHARES UNDER THIS DOCUMENT IS STRONGLY URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISER WITH RESPECT TO THE UNITED STATES FEDERAL, STATE, LOCAL AND FOREIGN INCOME, ESTATE AND OTHER TAX CONSEQUENCES OF THE ACQUISITION OF ORDINARY SHARES, WITH SPECIFIC REFERENCE TO SUCH PERSON'S PARTICULAR FACTS AND CIRCUMSTANCES.

**(i) General taxation of distributions**

Subject to the application of the passive foreign investment company and controlled foreign corporation rules discussed below, a US Holder that receives a distribution, including a constructive distribution, with respect to the Ordinary Shares will be required to include the amount of such distribution in gross income as a dividend to the extent of the current or accumulated "earnings and profits" of the Company, as determined under United States federal income tax principles. To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated (a) first, as a tax-free return of capital to the extent of a US Holder's tax basis in the Ordinary Shares and, (b) thereafter, as gain from the sale or exchange of such Ordinary Shares. The Company does not maintain calculations of its earnings and profits in accordance with United States federal income tax accounting principles. US Holders should therefore assume that any distribution by the Company with respect to Ordinary Shares will constitute ordinary dividend income. US Holders should consult their own tax advisers with respect to the appropriate United States federal income tax treatment of any distribution received from the Company.

A dividend paid by the Company generally will not be eligible for the preferential tax rates applicable to certain dividends paid by a qualified foreign corporation.

The amount of any dividend on the Ordinary Shares paid in foreign currency will equal the United States dollar value of the foreign currency received calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received by the US Holder regardless of whether the foreign currency is converted into United States dollars. If the foreign currency received is not converted into United States dollars on the day of receipt, a US Holder will have a basis in the foreign currency equal to its United States dollar value on the date of receipt. Any gain or loss that a US Holder realises on a subsequent conversion or other disposal of the foreign currency will be treated as United States source income or loss.

**(ii) Disposition of Ordinary Shares**

Subject to the application of the passive foreign investment company and controlled foreign corporation ("CFC") rules discussed below, a US Holder will recognise gain or loss on the sale or other taxable disposal of Ordinary Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such US Holder's tax basis in the Ordinary Shares sold or otherwise disposed of. Any such gain or loss will generally be capital gain or loss, which will be long-term capital gain or loss if the Ordinary Shares are held for more than one year. Gain or loss recognised by a US Holder on the sale or other taxable disposal of Ordinary Shares generally will be treated as "US source" for purposes of applying the United States foreign tax credit rules. A cash basis US Holder or an electing accrual basis US Holder that receives foreign currency upon sale or other disposal of the Ordinary Shares will realise an amount equal to the US dollar value of the foreign currency on the settlement date. Any other US Holder will determine the amount realised on the date of sale and will have additional foreign exchange gain or loss attributable to the movement in exchange rates between the date of sale and the settlement date. A US Holder will have tax basis in the foreign currency received equal to the US dollar value of the foreign currency on the settlement date. Any gain or loss realised by a US Holder on a subsequent conversion of the foreign currency for a different amount will be foreign currency gain or loss.

Preferential tax rates apply to long-term capital gains of a US Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a US Holder that is a corporation. Deductions for capital losses and net capital losses are subject to complex limitations.

**(iii) Passive Foreign Investment Company Rules**

In general, a non-US corporation will be considered a passive foreign investment company (a “PFIC”) for US federal income tax purposes for any taxable year in which (i) 75 per cent or more of its gross income consists of passive income or (ii) 50 per cent or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. In computing the above calculations, a non-US corporation that directly or indirectly owns at least 25 per cent by value of the stock of another corporation is treated as if it held its proportionate share of the assets of such other corporation and received directly its proportionate share of the income of such other corporation. Passive income generally includes dividends, interest, rents, royalties and gains from the sale of assets that produce such income.

If the Company is a PFIC for any taxable year during which a US Holder holds Ordinary Shares and the holder has not made a mark-to-market election as described below, such holder will be subject to the following US federal income tax rules. In general, any gain recognised upon a disposition (including, under certain circumstances, a constructive disposition) of Ordinary Shares by such US Holder would be allocated ratably over the holder’s holding period for such Ordinary Shares. The amounts allocated to the taxable year of disposition and to years before the Company became a PFIC, if any, would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for such taxable year for individuals or corporations, as appropriate, and an interest charge would be imposed on the tax attributable to such allocated amounts. Further, any distribution received by such US Holder on its Ordinary Shares in excess of 125 per cent of the average of the annual distributions on such Ordinary Shares received during the preceding three years or the holder’s holding period, whichever is shorter, would be subject to taxation as described above.

Under certain attribution rules, if the Company is a PFIC, US Holders will be deemed to own their proportionate share of any direct or indirect subsidiaries of the Company that are also PFICs (“subsidiary PFICs”), and will generally be subject to US federal income tax as if such holders directly held the shares of such subsidiary PFICs.

If the Company is a PFIC for a taxable year in which it pays a dividend or the prior taxable year, the favourable dividend rates discussed above with respect to dividends paid to certain non-corporate US Holders will not apply.

To avoid the foregoing rules (other than the inapplicability of the favourable dividend rates described in the preceding paragraph) if the Company is a PFIC, a US Holder may make a mark-to-market election with respect to the Ordinary Shares (but not with respect to the shares of any subsidiary PFICs) if the Ordinary Shares are “regularly traded” on a “qualified exchange”. The Ordinary Shares will generally be treated as “regularly traded” in any calendar year in which more than a de minimis quantity of Ordinary Shares is traded on a qualified exchange on at least 15 days during each calendar quarter. A “qualified exchange” includes a non-US exchange that is regulated by a governmental authority in which the exchange is located and with respect to which certain other requirements are met. Although the matter is not entirely free from doubt, the Irish Stock Exchange and the London Stock Exchange should each be treated as a “qualified exchange” for this purpose.

If a US Holder makes a valid mark-to-market election, for each year in which the Company is a PFIC, the holder will generally include as ordinary income the excess, if any, of the fair market value of the Ordinary Shares at the end of the taxable year over their adjusted tax basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted tax basis of the Ordinary Shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a US Holder makes the election, the holder’s tax basis in the Ordinary Shares will be adjusted to reflect any such income or

loss amounts. Any gain recognised on the sale or other disposition of Ordinary Shares will be treated as ordinary income. Once made, the election cannot be revoked without the consent of the US Internal Revenue Service unless the Ordinary Shares cease to be marketable. US Holders should consult their own tax advisers regarding the availability and advisability of making a mark-to-market election in their particular circumstances. In particular, US Holders should consider carefully the impact of a mark-to-market election with respect to their Ordinary Shares when the Company has subsidiary PFICs.

A US shareholder may also be able to mitigate some of the adverse US federal income tax consequences resulting from holding shares in a PFIC by making a qualified electing fund election with respect to the PFIC. However, the Company will not make available the information necessary for US Holders to make a qualified electing fund election if it is a PFIC.

If a US Holder owns Ordinary Shares during any year in which the Company is a PFIC, the holder must file a separate US Internal Revenue Service Form 8621 with respect to the Company and each subsidiary PFIC.

The Company does not intend to monitor its PFIC status. Therefore, US Holders should consult their own tax advisers concerning the PFIC status of the Company and its subsidiaries and the tax considerations relevant to an investment in a PFIC, including the availability and advisability of making any election discussed above.

**(iv) Controlled Foreign Corporation Rules**

The Company may be classified as a CFC. In general, a non-US corporation will be classified as a CFC if more than 50% of the shares of the corporation, measured by reference to combined voting power or value, is owned (directly, indirectly or by attribution) by US Shareholders. A “US Shareholder”, for this purpose, is any US person that possesses (directly, indirectly or constructively) 10% or more of all interests treated for US federal income tax purposes as voting equity of the issuer. If more than 50% of the aggregate number of the Ordinary Shares outstanding are owned (directly, indirectly or constructively) by such US Shareholders, the Company would be treated as a CFC.

If the Company were treated as a CFC, a US Shareholder of the Company would be treated, subject to certain exceptions, as receiving a deemed dividend (taxable as ordinary income) at the end of the taxable year of the Company in an amount equal to that person’s *pro rata* share of the Company’s income for the tax year (including both ordinary earnings and capital gains), whether or not the Company makes a distribution. The income will be treated as income from sources within the United States to the extent derived by the Company from US sources.

Additionally, US Holders should be aware that if a US person sells or exchanges stock in a non-US corporation, and such person possesses (directly, indirectly or constructively) 10% or more of all interests treated for US federal income tax purposes as voting equity of the corporation at any time during the five year period ending on the date of sale or exchange when such foreign corporation was a CFC, any gain from the sale or exchange of the stock may be treated as ordinary income to the extent of the CFC’s earnings and profits during the period that the shareholder held to the stock (with certain adjustments).

If the Company were treated as a CFC, a US Shareholder of the Company which made a qualified electing fund election with respect to the Company would be taxable on the income of the Company under rules prescribed for CFCs and not under the PFIC rules previously described. As a result, to the extent income of the Company includes net capital gains, such gains will be treated as ordinary income of the US Shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the PFIC rules if a qualified electing fund election were made. Also, the PFIC rule permitting the deferral of tax on undistributed earnings would not apply.

In addition, if the Company were to constitute a CFC, the Company generally would not be treated as a PFIC at all with respect to any Ordinary Shares owned by a US Holder that qualifies as a US Shareholder. If such US Holder of Ordinary Shares subsequently ceases to be a US Shareholder, such US Holder will be treated as owning an interest in a PFIC as of the day following such cessation and could make a qualified electing fund election in accordance with the rules discussed above.

## **Additional rules that may apply to United States persons**

### **(i) Information reporting and backup withholding**

United States information reporting requirements and backup withholding tax generally will apply to certain non-corporate holders of Ordinary Shares. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, Ordinary Shares by a paying agent within the United States or with certain nexus with the United States to a holder of Ordinary Shares (other than a person that establishes that it is an “exempt recipient”). Such paying agent or other intermediary within the United States will be required to withhold at a rate of 28 per cent on any payment of proceeds from the sale or redemption of Ordinary Shares to a US Holder (other than a corporation or an “exempt recipient”) if such shareholder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding requirements. Any amounts withheld under the backup withholding rules from a payment to a US Holder generally may be credited against such US Holder’s United States federal income tax liability, if any, (or refunded) provided the required information is furnished to the Internal Revenue Service. US Holder’s should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption. If information reporting requirements apply to a US Holder, the amount of dividends paid with respect to such Ordinary Shares will be reported annually to the Internal Revenue Service and such US Holder.

### **(ii) IRS Form 926 reporting**

A US Holder may be required to report, with its tax return for the tax year that includes the date on which the purchase of Ordinary Shares occurs, certain information relating to the purchase of the Ordinary Shares on IRS Form 926. In the event a US Holder subject to reporting fails to file any such required form, the US Holder could be subject to a penalty equal to 10 per cent of the gross amount paid for the Ordinary Shares subject to a maximum penalty equal to US\$100,000 (except in cases of intentional disregard).

## **14. CREST and Depositary Interests**

The Placing Shares are in registered form and are in certified form. However, it is proposed that, with effect from Admission, Placing Shares may be delivered, held and settled in CREST by means of (in the case of new Ordinary Shares to be issued) the creation of dematerialised depositary interests representing such Placing Shares. Pursuant to a method proposed by CRESTCo under which transactions in international securities may be settled through the CREST system, the Registrars, will issue dematerialised depositary interests representing entitlements to Placing Shares, known as Depositary Interests or “DIs”. The DIs will be independent securities constituted under English law which may be held and transferred through the CREST system.

The Depositary agreement under which the Company has appointed the Registrars to provide the DI arrangements is summarised in paragraph 15 below.

The DIs will be created pursuant to and issued on the terms of a deed poll executed by the Registrars in favour of the holders of the DIs from time to time (the “Deed Poll”). Prospective holders of DIs should note that they will have no rights in respect of the underlying Placing Shares or the DIs representing them against CRESTCo or its subsidiaries.

Placing Shares will be transferred to an account of the Registrars or their nominated Custodian (the “Custodian”) and the Registrars will issue DIs to participating CREST members.

Each DI will be treated as one Placing Share for the purposes of determining, for example, eligibility for any dividends. The Registrars will pass on to holders of DIs any stock or cash benefits received by it as holder of Placing Shares on trust for such DI holder. DI holders will also be able to receive notices of meetings of holders of Placing Shares and other notices issued by the Company to its Shareholders.

The DIs will have the same security code (ISIN) as the underlying Placing Shares and will not require a separate listing on AIM.

## 15. Depositary Interests – terms of the Deed Poll

Prospective subscribers for and purchasers of the Placing Shares are referred to the Deed Poll available for inspection at the offices of JPMorgan Cazenove. In summary, the Deed Poll contains, among other things, provisions to the following effect which are binding on holders of DIs.

- (a) The Registrars will hold (itself or through its nominated Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities pertaining to the DIs for the benefit of the holders of the relevant DIs.
- (b) Holders of DIs warrant, among other things, that the securities in the Company transferred or issued to the Custodian on behalf of the Registrars are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's constitutional documents or any contractual obligation, law or regulation.
- (c) The Registrars and any custodian must pass on to DI holders and exercise on behalf of DI holders all rights and entitlements received or to which they are entitled in respect of the underlying securities which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form which they are received together with any amendments and additional documentation necessary to effect such passing-on, or, as the case may be, exercised in accordance with the Deed Poll.
- (d) The Deed Poll contains provisions excluding and limiting the Registrars' liability. For example, the Registrars shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Registrars shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Registrars' liability to a holder of DIs will be limited to the lesser of (a) the value of the Ordinary Shares and other deposited property properly attributable to the DIs to which the liability relates and (b) that proportion of £5,000,000 which corresponds to the portion which the amount the Registrars would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the Registrars would otherwise be liable to pay to all such holders in respect of the same act, omission or event or, if there are no such amounts, £5,000,000.
- (e) The Registrars are entitled to charge holders fees and expenses for the provision of its services under the Deed Poll.
- (f) Each holder of DIs is liable to indemnify the Registrars and any custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of DIs held by that holder, other than those resulting from the wilful default, negligence or fraud of the Registrars, or the Custodian of the same group, the Registrars shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent.
- (g) The Registrars may terminate the Deed Poll by giving at least 90 days' notice. During such period, holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Registrars must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion sell all or part of such deposited property. It shall, as soon as reasonable practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Registrars, together with any other cash held by it under the Deed Poll *pro rata* to holders of DIs in respect of their DIs.
- (h) The Registrars or the Custodian may require from any holder or former or prospective information as to the capacity in which DIs are owned or held and the identity of any other person with any interest of any kind in such DIs or the underlying Placing Shares

and the holders are bound to provide such information requested. Furthermore, to the extent that, among other things, the Company's constitutional documents require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever, in the Company's securities, the holders of DIs are to comply with such provisions and with the Company's instructions with respect thereto.

It should also be noted that holders of DIs may not have the opportunity to exercise all of the rights and entitlements available to holders of Placing Shares including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of DIs to give prompt instructions to the Registrars or its nominated Custodian, in accordance with any voting arrangements made available to them, to vote the underlying Placing Shares on their behalf or, to the extent possible, to take advantage of any arrangements enabling holders of DIs to vote such Placing Shares as a proxy of the Registrars or its nominated Custodian.

## **16. Depositary Interests – terms of Depositary Agreement**

The terms of the depositary agreement dated 5 July 2005 between the Company and Computershare (the "Depositary Agreement") under which the Company has appointed Computershare to issue the DIs on the terms of the Deed Poll and to provide certain other services in connection with the DIs, are summarised below.

- (a) The Registrars agree to provide certain depositary and custodian services under the Depositary Agreement (the "Depositary and Custodian Services") with reasonable skill and care and in accordance with the FSMA and the CREST Regulations. The services include complying with the provisions of the Deed Poll, maintaining a depositary interest register and dealing with routine correspondence with holders of DIs.
- (b) The agreement is for an initial fixed term at which point, either party may give the other party notice to terminate the agreement. The agreement may be terminated in certain other circumstances.
- (c) The Company agrees to provide to the Registrars all information, data and documentation reasonably required by the Registrars to carry out the Depositary and Custodian Services.
- (d) Each party gives certain undertakings in relation to compliance with relevant data protection legislation.
- (e) The Registrars are entitled, by serving prior written notice on the Company, to change the Depositary Agreement if it is reasonably necessary to do so to reflect any change to CREST services or law.
- (f) The Registrars are to indemnify the Company against any loss arising as a result of the fraud, negligence or wilful default of the Registrars (including agents engaged by Registrars to carry out the Depositary or Custodian Services) or which arises out any breach of the terms of the Depositary Agreement or the Deed Poll.
- (g) The Company is to pay certain fees and charges including, among other things, an annual fee, a fee based on the number of DIs held in each month and certain CREST related fees. The Registrars are also entitled to recover out of pocket fees and expenses.

## **17. Share Dealing Code**

17.1 The Company adopted a share dealing code at the time of the AIM Admission to help ensure compliance with rule 21 of the AIM Rules relating to Directors' and applicable employees' dealings in the Company's Ordinary Shares, the details of which are set out below.

17.2 The Share Dealing Code provides that, in accordance with the AIM Rules, a Director cannot deal in the Company's Ordinary Shares in the following circumstances:

- (a) during the two month period prior to notification of the Company's annual results and half-yearly results; during the one month period prior to the notification of its quarterly results or, if shorter, the period from the relevant financial period end up to and including the time of notification;
- (b) while the Company is in possession of unpublished price-sensitive information; or
- (c) at any other time when it has become reasonably probable that such information be required to be notified to a Regulatory Information Service under the AIM Rules.

17.3 The Company will also be subject to UK legislation prohibiting market abuse and insider dealing under the FSMA. Guidance notes on the market abuse regime are set out in full in the Share Dealing Code.

#### **18. Significant change**

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 31 December 2006, the end of the last financial period for which interim financial information has been published.

#### **19. Working capital**

In the opinion of the Directors, having made due and careful enquiry, and taking into account existing cash resources, the facilities available to the Group and the net proceeds of the Placing receivable by the Company, the working capital available to the Group will be sufficient for its present requirements, that is for at least the next 12 months following the date of Admission.

#### **20. Litigation**

No governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) are active, pending or threatened against, or being brought by, by the Group which have had over the last 12 months are having or may have a significant effect on the Company and/or the Group's financial position or profitability.

#### **21. General**

21.1 The accounting reference date of the Company is 30 June. Baker Tilly Hong Kong Limited and CCIF CPA Limited have been the joint auditors of the Company for the period ended 31 December 2006. Each of Baker Tilly Hong Kong Limited and CCIF CPA Limited is a member of the Hong Kong Institute of Certified Public Accountants.

21.2 The principal activities of the Company and the important events in the development of the Company's business are as described in Part IV of this document. Save as disclosed in this document, there are no exceptional factors which have influenced the Company's activities.

21.3 The total costs and expenses payable by the Company in connection with the Placing (including professional fees, the costs of printing and the fees payable to the Registrars and JPMorgan Cazenove) are estimated to amount to approximately £2 million (with no VAT payable thereon).

21.4 The ISIN for the Company's Placing Shares and Depositary Interests is BMG0620W1029.

#### **22. Incorporation by reference**

The financial statements of the Group included in the annual reports for the years ended 30 June 2005 and 2006, together with the audit reports thereon, and the unaudited interim report for the six-month period ended 31 December 2006 are incorporated by reference into this document.

## DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“AAD”	the agricultural affairs department of the Group
“Admission”	admission of the new Ordinary Shares to be issued pursuant to the Placing to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	AIM, a market operated by the London Stock Exchange
“AIM Admission”	the admission of the Company’s entire issued and to be issued share capital to trading on AIM on 3 August 2005
“AIM Rules”	the AIM Rules for Companies of the London Stock Exchange governing admission to and the operation of AIM
“ASEAN”	the Association of South East Asian Nations
“Asian Citrus” or the “Company”	Asian Citrus Holdings Limited, an exempted company incorporated under the laws of Bermuda with limited liability on 4 June 2003
“Asian Citrus (H.K.)”	Asian Citrus (H.K.) Company Limited, a company incorporated under the laws of Hong Kong with limited liability on 13 October 2004, a wholly-owned subsidiary of Asian Citrus Management
“Asian Citrus Management”	Asian Citrus Management Company Limited (formerly known as Apex Reward International Limited), a company incorporated under the laws of BVI with limited liability on 18 June 2003, a wholly-owned subsidiary of Newasia
“Asian Citrus Shareholders”	Huge Market, Market Ahead and the other parties to the Relationship Agreement, excluding the Company
“Asian Fruits”	Asian Fruits Limited, a company incorporated under the laws of the BVI with limited liability on 12 August 2005 and jointly owned by Access Fortune Investments Limited (a wholly-owned subsidiary of the Company), Calfruits Company Limited and others
“Asian Fruits Trading”	Asian Fruits Trading (Dongguan) Limited, an FIE established under the laws of the PRC with limited liability on 27 October 2006 and a wholly-owned subsidiary of Asian Fruits Limited
“Bermuda Act”	the Companies Act 1981 of Bermuda, as amended
“Bondholders”	any or all of Metage Funds (1), Metage Special Emerging Markets Fund (2) and Mr Yim Hin Keung (3) (as the context may require)
“Business Day”	a day on which dealing in domestic securities may take place on AIM
“BVI”	the British Virgin Islands
“Bye-laws”	the bye-laws of the Company
“CAGR”	Compound Annual Growth Rate
“Calfruits”	Calfruits Company Limited
“Cazenove Asia”	Cazenove Asia Limited
“CCIF”	CCIF CPA Limited, the auditors of the Company
“CGFDC”	the China Green Food Development Centre established by the MOA in 1992 to set the “green food” standards and grant licences for qualified produce in the PRC
“Chaoda”	Chaoda Modern Agriculture (Holdings) Limited, a company incorporated under the laws of the Cayman Islands
“Chaoda Group”	Chaoda and its subsidiaries

<b>“Chaoda Vegetable”</b>	Chaoda Vegetable & Fruits Limited, a company incorporated under the laws of Hong Kong, a wholly-owned subsidiary of Chaoda
<b>“China Citrus Institute”</b>	Citrus Institute of the Chinese Academy of Agricultural Sciences
<b>“Combined Code”</b>	the revised combined code on the principles of good governance and code of best practice published in June 2003 by the Financial Reporting Council (2006 update)
<b>“Companies Ordinance”</b>	the Companies Ordinance (chapter 32 of the Laws of Hong Kong), as amended
<b>“Conversion”</b>	in respect of Metage Funds, the Conversion of the Metage Funds Convertible Bonds and, in respect of Metage Special Emerging Markets Fund, the conversion of the Metage Special Emerging Markets Fund Convertible Bonds
<b>“Conversion Shares”</b>	the aggregate of Metage Funds Conversion Shares and the Metage Special Emerging Markets Fund Conversion Shares
<b>“Convertible Bonds”</b>	convertible bonds issued on 14 July 2005 in exchange for the Original Convertible Bonds due 2008 issued by Asian Citrus to Metage Funds (1), Metage Special Emerging Markets Fund (2) and Mr Yim Hin Keung (3) in the aggregate principal amount outstanding of HK\$100 million
<b>“CREST”</b>	the relevant system of paperless settlement of share transfers and for the holding of shares in uncertificated form in respect of which CRESTCo is the Operator (each as defined in the CREST Regulations)
<b>“CRESTCo”</b>	CRESTCo Limited, a company incorporated under the laws of England and Wales and the operator of CREST
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/3755)
<b>“Daily Official List”</b>	the Daily Official List of the London Stock Exchange
<b>“Depository Interests” or “DIs”</b>	dematerialised depository interests in respect of underlying Ordinary Shares further details of which are set out in paragraphs 14, 15 and 16 of Part VII of this document
<b>“Directors” or “Board”</b>	the directors of the Company, whose names are set out on page 9 of this document
<b>“ERISA”</b>	the Employee Retirement Income Security Act of 1974, as amended, of the United States;
<b>“Evolution Securities”</b>	Evolution Securities Limited
<b>“Exchange Act”</b>	the Securities Exchange act of 1934, as mended, of the United States;
<b>“Executive Directors”</b>	the executive directors of the Company whose names are set out in the paragraph headed, “Directors and employees” of Part IV of this document
<b>“Financial Information”</b>	the financial statements of the Group included in the annual reports for the years ended 30 June 2005 and 2006 together with the audit reports thereon and the unaudited interim report for the six-month period ended 31 December 2006, which are incorporated by reference into this document
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, as amended
<b>“Fuzhou Chaoda”</b>	Fuzhou Chaoda Modern Agricultural Development Company Limited, a WFOE incorporated under the laws of the PRC, an indirect wholly-owned subsidiary of Chaoda

<b>“Group”</b>	the Company and its subsidiaries and, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the subsidiaries of the Company at the time
<b>“Hepu Government”</b>	The People’s Government of Hepu County in the Guangxi Zhuang Autonomous Region in the PRC
<b>“Hepu Plantation”</b>	the Group’s plantation located in the Dao County, Hunan province of the Guangxi Zhuang Autonomous Region in the PRC
<b>“Hepu Leases”</b>	leases entered into between Newasia as the lessee and the relevant legal land owners as the lessors in relation to the Hepu Plantation, further details of which are set out in the sub-section headed “Summary of land information” in paragraph 10 of Part VII of this document
<b>“Huge Market”</b>	Huge Market Investments Limited, a company incorporated under the laws of BVI with limited liability on 2 January 2001, a wholly-owned subsidiary of Chaoda
<b>“Hunan Government”</b>	The People’s Government of Hunan province in the PRC
<b>“Hunan Plantation”</b>	the Group’s proposed plantation located in Dao County, Hunan province in the PRC.
<b>“IFRS”</b>	International Financial Reporting Standards, as adopted by the European Union
<b>“ISIN”</b>	International Securities Identification Number
<b>“JPMorgan Cazenove”</b>	JPMorgan Cazenove Limited
<b>“Listing Rules”</b>	the latest edition of the “Listing Rules” issued by the UK Listing Authority made under Part VI of the FSMA
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Litian (Xinfeng)”</b>	Litian Biological Sciences & Technology Development (Xingfeng) Co., Ltd., a WFOE incorporated under the laws of the PRC on 21 November 2002, a wholly-owned subsidiary of Newasia
<b>“Lock-up Agreement”</b>	the lock-up agreement dated 28 March 2007 between the Directors (other than Mr Pang Yi) (1), the Company (2) and JPMorgan Cazenove (3), further details of which are set out in paragraph 8 of Part VII of this document
<b>“Lucky Team (Hepu)”</b>	Lucky Team Biotech Development (Hepu) Ltd., a WFOE incorporated under the laws of the PRC on 11 April 2000, a wholly-owned subsidiary of Newasia
<b>“Market Ahead”</b>	Market Ahead Investments Limited, a company incorporated under the laws of BVI with limited liability on 12 February 2002
<b>“MAO”</b>	the Ministry of Agriculture of the PRC
<b>“Memorandum of Association”</b>	the memorandum of association of the Company
<b>“Metage Funds”</b>	Metage Funds Limited
<b>“Metage Funds Convertible Bonds”</b>	the HK\$38,500,000 in principal amount of the Convertible Bonds held by Metage Funds to be converted
<b>“Metage Funds Conversion Shares”</b>	the 2,360,515 Ordinary Shares to be issued to Metage Funds upon conversion of the Metage Funds Convertible Bonds
<b>“Metage Special Emerging Markets Fund”</b>	Metage Special Emerging Markets Fund Limited
<b>“Metage Special Emerging Markets Fund Convertible Bonds”</b>	the HK\$17,500,000 in principal amount of the Convertible Bonds held by Metage Special Emerging Markets Fund to be converted
<b>“Metage Special Emerging Markets Fund Conversion Shares”</b>	the 1,072,961 Ordinary Shares to be issued to Metage Special Emerging Markets Fund upon conversion of the Metage Special Emerging Markets Fund Convertible Bonds

<b>“NAV” or “Net Asset Value”</b>	the net asset value per Ordinary Share
<b>“Newasia”</b>	Newasia Global Limited, a company incorporated under the laws of BVI with limited liability on 2 December 1997, a wholly-owned subsidiary of the Company
<b>“New Ordinary Shares”</b>	the Ordinary Shares to be issued by the Company pursuant to the Placing
<b>“Non-Executive Directors”</b>	the non-executive directors of the Company whose names are set out in the paragraph headed, “Directors and employees” of Part IV of this document
<b>“Official List”</b>	the official list of the UK Listing Authority
<b>“Ordinary Shares”</b>	ordinary shares of HK\$0.10 each in the share capital of the Company which, when held in CREST, will be held in the form of DIs
<b>“Original Convertible Bonds”</b>	convertible bonds due 2008 issued by Newasia pursuant to the Original Convertible Bonds Subscription Agreement to Metage Funds (1), Metage Special Emerging Markets Fund (2) and Mr Yim Hin Keung (3)
<b>“Original Convertible Bonds Subscription Agreement”</b>	the subscription agreement dated 4 March 2005 between Newasia (1), Metage Funds (2), Metage Special Emerging Markets Fund (3), Mr Yim Hin Keung (4), Mr Tong Wang Chow (5) and Huge Market (6) in relation to the subscription for and issue of the Original Convertible Bonds, as amended by a supplemental agreement dated 16 March 2005
<b>“Placing”</b>	the placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement, as more particularly described in the paragraph headed “Details of the Placing” of Part V of this document
<b>“Placing Agreement”</b>	the conditional agreement expected to be entered into on or around 28 March 2007 between the Company (1), JPMorgan Cazenove (2) and the Selling Shareholders (3) relating to the Placing, further details of which are set out in paragraph 8 of Part VII of this document
<b>“Placing Price”</b>	the price at which each Placing Share is to be sold pursuant to the Placing
<b>“Placing Shares”</b>	the New Ordinary Shares and the Sale Shares
<b>“plan assets”</b>	has the meaning given by ERISA
<b>“PRC” or “China”</b>	the People’s Republic of China (for the purposes of this document excluding Hong Kong, Macau and Taiwan)
<b>“Prospectus directive”</b>	directive 2003/71/EC of the European Union
<b>“Prospectus Rules”</b>	the prospectus rules issued by the FSA pursuant to section 84 of the FSMA
<b>“Qualified Institutional Buyer” or “QIB”</b>	has the meaning given by Rule 144A
<b>“Registrars”</b>	Computershare Investor Services PLC
<b>“Regulation S”</b>	Regulation S under the Securities Act
<b>“Relationship Agreement”</b>	the agreement dated 28 July 2005 and entered into between the Company and the Asian Citrus Shareholders, further details of which are set out in paragraph 8 of Part VII of this document
<b>“RMB” or “Renminbi”</b>	Renminbi yuan, the lawful currency of the PRC
<b>“Rule 144A”</b>	Rule 144A under the Securities Act
<b>“Sale Shares”</b>	the existing Ordinary Shares to be sold by the Selling Shareholders pursuant to the Placing

<b>“SEC”</b>	the US Securities and Exchange Commission
<b>“Securities Act”</b>	the Securities Act of 1933, as amended
<b>“Selling Shareholders”</b>	Market Ahead (1), Huge Market (2), Metage Funds <sup>1</sup> (3) and Metage Special Emerging Markets Fund <sup>2</sup> (4)
<b>“SGM”</b>	the special general meeting of the Company held on 15 March 2007
<b>“Shareholder(s)”</b>	holder(s) of the Ordinary Shares
<b>“Share Dealing Code”</b>	the share dealing code adopted by the Company to ensure compliance with the rule 21 of the AIM Rules
<b>“Share Option Plan”</b>	the Asian Citrus Share Option Plan
<b>“Top Nation”</b>	Top Nation Shipping Limited, a company incorporated under the laws of Hong Kong with limited liability
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“UK Companies Act”</b>	the Companies Act 1985, as amended
<b>“UK Listing Authority”</b>	the FSA, acting in its capacity as the competent authority for the purposes of Part VI of FSMA
<b>“United States” or “US”</b>	means the United States of America, its territories and possessions and any state of the United States
<b>“Weizhou Chaoda”</b>	Weizhou Chaoda Microbe Organic Fertiliser Company Limited, a company incorporated under the laws of the PRC with limited liability, being one of the suppliers of the Group and a related party
<b>“WTO”</b>	the World Trade Organisation
<b>“Xinfeng Government”</b>	the People’s Government of Xinfeng County in the Jiangxi province in the PRC
<b>“Xinfeng Lease”</b>	the lease in relation to Xinfeng Plantation as mentioned and described under the sub-section headed “Summary of land information” in paragraph 10 of Part VII of this document
<b>“Xinfeng Plantation”</b>	the Group’s plantation located in the Xinfeng County of the Jiangxi province in the PRC
<b>“Zhangzhou Chaoda”</b>	Fujian Zhangzhou Chaoda Microbe Organic Fertiliser Company Limited, a company incorporated under the laws of the PRC with limited liability, being one of the suppliers of the Group and a related party

1 Assuming conversion of Metage Funds Convertible Bonds

2 Assuming conversion of Metage Special Emerging Market Convertible Bonds

## GLOSSARY

<b>“FEIT”</b>	PRC foreign enterprise income tax
<b>“FIE”</b>	foreign investment enterprise, including a Sino-foreign equity joint venture, a Sino-foreign co-operative joint venture and a wholly foreign-owned enterprise established in the PRC
<b>“SAFE”</b>	the State Administration for Foreign Exchange of the PRC, the government agency responsible for matters relating to foreign exchange administration
<b>“summer oranges”</b>	a type of orange which includes species of Valencia orange, the characteristics of which are set out in the paragraph headed “The Group’s business” of Part IV of this document
<b>“WFOE”</b>	a wholly foreign-owned enterprise, a form of foreign invested enterprise in the PRC with limited liability and power to contract and assume legal obligations
<b>“winter oranges”</b>	a type of orange which includes species of navel, pineapple, hamlin and hong jiang, the characteristics of which are set out in the paragraph headed “The Group’s business” of Part IV of this document